

## FX Daily: Fiscal risk hitting the pound

The drop in USD this week seems to be linked to expectations that US data will come in soft. But hearing Fed speakers, the move seems a bit premature, even if it looks like we could get September payrolls data soon. In the UK, the government is scrapping its income tax hike plans. GBP downside risks have suddenly increased



UK Chancellor Rachel Reeves has reportedly abandoned plans for a hike in income tax after considerable backlash

We have published our [2026 FX Outlook: Play the ball, not the man](#) with our views and forecasts for next year.

### USD: Dollar pricing in soft data

It's not unusual for the highly efficient FX market to be more forward-looking than other asset classes. In this case, it appears that the dollar is embedding the narrative that the US reopening will lead to softer data and a dovish Fed repricing.

This has been our view for a while, but we must admit that the bar for a December cut has risen when hearing Fed officials. Yesterday, Neel Kashkari stressed evidence of "resilience in economic activity, more than I had expected", and kept his options open for December. Hammack and

Musalem (who are generally hawkish) suggested we are close to neutral and the room for more cuts is limited.

One important development yesterday was the announcement by Kevin Hassett (Director of the National Economic Council and Fed Chair candidate) that September's jobs numbers should be released – potentially next week – but without the unemployment rate. In our view, this suggests that the Administration doesn't want the Fed to use a lack of data as an excuse not to cut rates in December.

While the move in the dollar fits our bearish view, it feels a bit premature and at risk of rapid reversal should the initial batch of US data prove not as bad as seemingly priced in.

*Francesco Pesole*

## 📉 EUR: Decent momentum may fade

EUR/USD bullishness has continued to rise both in spot and via the options markets, with 1-month 25 delta risk reversals (cost of a call minus cost of a put) having moved from -0.2 to +0.3 in the past 10 days. There is still some room before reaching the September 0.7 or April's 1.3 peaks, but the shift is clear.

The EUR/USD move has been primarily, but not entirely, driven by the dollar. European currencies are generally in demand, and while NOK, SEK and CHF have been the preferred currencies, the rest of the G10 has underperformed the euro since the start of the week.

Today's second release of CPI and GDP data in the eurozone shouldn't move the market, and the only ECB speaker on the calendar is Isabel Schnabel.

EUR/USD has now entirely erased its undervaluation gap, and we now feel less confident about short-term upside unless US data come in soft. We see some correction risks today, with a return below 1.160 surely possible.

*Francesco Pesole*

## 📉 GBP: Downside risks suddenly increasing on fiscal risk

Reports of UK Chancellor Rachel Reeves scrapping plans for income tax hikes are pressuring the pound. As discussed in our [UK Budget preview](#), the gilt rally was being backed by expectations that income tax increases would have delivered the necessary fiscal tightening without stoking up inflation, ultimately allowing the Bank of England to cut rates in December and beyond. So, a double positive for UK bonds: less fiscal risk plus central bank easing.

It's not clear how Reeves plans to fill the £30bn fiscal hole without touching income tax. We discussed [here](#) which areas markets will be sensitive to. For example, should she target VAT increases – an inflationary measure – a hawkish BoE repricing would hit gilts.

Media reports are currently suggesting a number of options being considered. One appears to be freezing the threshold for income tax brackets, which would have a similar fiscal effect as raising the rate on one bracket and could be well received by markets.

EUR/GBP is trading at 0.887 at the time of writing: if gilt markets open with some meaningful

losses, the risk premium on GBP can rise further and bring the pair above 0.890. Ultimately, this does not look like enough of an indication that Reeves is willing to radically change her fiscal prudence commitment. And we saw in the past how unwanted gilt moves can trigger some reaction by the government aimed at reassuring markets. So even if downside risks for the pound have increased, we still expect the EUR/GBP rally to be partly reversed.

*Francesco Pesole*

## CZK: Koruna hits two-year highs

The Czech National Bank will publish the minutes of its November meeting today. The governor's press conference last week was rather neutral and did not provide much detail. However, the CNB meeting with analysts showed more details of the new forecasts and topics of the board. Today's minutes could show this discussion in our view.

On the hawkish side, the Bank Board is concerned about higher wage growth, while on the dovish side, the risk is weaker foreign economic development, especially in Germany. At the same time, the new CNB forecast did not cover the news on energy prices. ETS2 was postponed from 2027 to 2028, which was announced a few days before the meeting. At the same time, we see proposals from the new government to subsidise part of energy prices and announcements by several suppliers to cut market prices from January.

Overall, the headline inflation profile has shifted down by around 0.4-0.5pp in 2026 and 0.6pp in 2027. The question is how much this has been reflected in the board's discussion, but as the press conference indicated, the CNB is becoming more neutral here, compared to the very strong hawkish tone in previous months.

However, the described scenario may not be visible in trading for some time and October inflation actually surprisingly rose slightly to 2.5% mainly due to food prices. We have seen some paying in rates where the front-end reached highs from late September and the market is currently pricing in around one rate hike of 25bp in the 1.5y horizon. Although these changes in headline inflation call for more dovish pricing, for now it provides support to FX.

Yesterday's rebound in EUR/USD, surprisingly strong current account data and a wider rate differential helped EUR/CZK down below 24,200, the lowest since September 2023. We still believe in gradual CZK appreciation looking ahead. In the short term, however, it seems that EUR/CZK has fully exploited the potential of higher rates and for now the fair value level seems to be somewhere in the range of 24.200-250.

*Chris Turner*

## CEE: Good mood and weaker US dollar support more gains

The end of the week in the CEE region will see more secondary data. In Romania, 3Q25 GDP figures will be released this morning and the market will be looking for the first impacts of the consolidation package on the economy. In Poland, we will see the final inflation figures for October, which should be confirmed at 2.8%, just slightly above the National Bank of Poland's target, and reveal the details of inflation, including a more accurate estimate of core inflation.

In Turkey, inflation expectations for November will be released, which saw some increase in October after several months of decline. Another increase would be a warning for the central bank,

but the latest inflation figure surprised slightly downwards, and we should rather see another decline or stagnation.

CEE FX saw further gains supported by a weaker US dollar yesterday, with the CZK outperforming peers. The region maintains favourable conditions as we discussed at the beginning of the week, and the good mood should last today. HUF quickly erased Tuesday's losses after fiscal headlines and EUR/HUF stabilised near 385, in line with our expectations in the [NBH preview](#) for next week. Moreover, the central bank should confirm its hawkish tone and EUR/HUF has further potential to go down despite record lows in the short term.

*Chris Turner*

## Author

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).