

FX Daily: French politics delivers some euro support

In the absence of US data, FX markets have largely focused on French and Japanese politics, plus surprise rate cuts in New Zealand and Poland. There is also the fallout from the First Brands bankruptcy in the US. But the risk environment remains well-supported and traders may increasingly switch from dollar to yen-funded carry trades



French President Macron could announce a new prime minister by Friday evening

📉 USD: FOMC minutes as expected

After a strong few days, the dollar rally has started to stall. Notably, the media pushing the hawkish elements of the [FOMC minutes](#) failed to move both the dollar and short-dated US yields last night. Reading through those minutes, one gets the sense that the Fed remains reasonably upbeat on US growth prospects, but just doesn't want to take any unnecessary risks with higher unemployment. Of course, we'll have to see how the US jobs data has been faring over the last four to six weeks once the government shutdown ends.

Away from the exciting optimism of a peace deal in the Middle East, global equity markets remain well-supported. China has reopened after a week-long holiday and today's positive sales results

from Taiwan chipmaker TSMC keeps the AI-driven rally on track for the time being. One of the few wrinkles out there remains September's bankruptcy of US autopart company First Brands and what it says about US lending standards and financial risks. The share price of Jefferies Financial Group has fallen 22% since mid-September as the company's exposure to First Brands has been explored in the media. At the moment, this is seen as a localised story and key high-yield credit spread indices, such as the Itraxx Cross-Over Index, remain near their tightest levels of the year. But this is a story worth monitoring.

We cannot see many big inputs to the dollar story today, but some stability in the euro may draw some of the strength out of the recent DXY rally. A 98.50-99.00 range looks likely here.

Chris Turner

EUR: Less bearish news out of France

News emerged last night from former French Prime Minister Sébastien Lecornu that President Macron could announce a new PM by Friday evening. This has come as a surprise to a market that had felt that the next chapter in the French political saga could only be new and divisive elections. The Polymarket betting site now shows a 37% probability of elections being called by the end of October, versus a 70% probability this time yesterday. The news has helped EUR/USD to find some support near 1.1600 and the popular hedge, EUR/CHF, to bounce off 0.9300.

And after spiking to the high-80s on Monday, the French: German OAT:Bund spread is drifting back to the low-80s. This news may be enough to buy the euro a reprieve until Friday evening at least.

Today, we'll see the minutes of the ECB policy meeting from last month. The message is expected to remain that the policy rate is 'in a good place' but that the ECB will not hesitate to act should risks develop. Those risks seem to err towards slower activity, lower inflation and another rate cut – although market pricing of that outcome remains very muted.

We prefer the lower end of a two-month trading range holding at 1.1580/1600 for EUR/USD. If not, we could see another sharpish fall to the 1.1500 area.

Chris Turner

JPY: Expect to hear more of the switch to yen funding

USD/JPY remains bid after taking out some strong resistance near 152.00 recently. We are not fans of the dollar, but have to acknowledge that a switch from funding carry trades from dollars to yen could send USD/JPY to 155. Here, yen weakness is being driven by the view that it will be politically difficult for the Bank of Japan to raise interest rates. We are monitoring how the new LDP President Sanae Takaichi is progressing with confirming a ruling coalition and what implications that has for policy.

For USD/JPY to come lower now, we need one of three things to happen: i) broad-based dollar weakness on soft US labour market data, ii) the BoJ surprising with a rate hike in late October or iii) some sharp correction in global equity markets. The first of those is the most likely – but not guaranteed. And until that point, low volatility means the carry trade will stay popular – now with the yen as the preferred funding vehicle.

Chris Turner

📌 CEE: Polish press conference will reveal the next steps

The National Bank of Poland surprised yesterday with a 25bp rate cut to 4.50%. Although there were some [expectations of rate cuts](#), the consensus was for unchanged rates. The statement describes the cut as another "adjustment," even though it is already the third rate cut in a row. The two main takeaways from the statement are slowing wages and the short-term inflation outlook as reasons for the cut. On the other hand, the fact that the NBP only talks about the short-term outlook seems to indicate that the central bank wants to remain hawkish, which we will likely hear today during the press conference. EUR/PLN saw only slight changes and, as we discussed yesterday, we believe that FX is range-bound and, despite the surprising cut, we do not see much of a story here. If the governor delivers a hawkish message, we may see some support for the PLN and move closer to the lower end of the 4.245-275 range.

Yesterday's meeting of the National Bank of Romania brought no surprises, with the rate unchanged at 6.50%. The central bank expects fiscal consolidation to increasingly weigh on household consumption and GDP growth, while inflation is only a temporary phenomenon triggered by higher taxes. Therefore, it is willing to look through this and, in our opinion, will return to rate cuts later next year. EUR/RON stopped its upward trend yesterday and, as we discussed, is holding at 5.100 for now. We believe that further weakening would put too much inflationary pressure on the central bank, and we will see more activity from the central bank in the market.

We've also just released our latest version of [Directional Economics](#) – including new sets of forecasts for the 13 countries covered in the CEEMEA space. And please join our team for a [webinar](#) discussing the feature article: from working hard to working smart, plus the regional outlook at 1300CET today.

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