

Article | 11 December 2025

FX

## FX Daily: It could have been worse for dollar bears

The Fed's 25bp rate cut was perhaps not as hawkish as some had feared. The dollar initially sold off on what could be seen as reflationary communication. Here, the Fed revised GDP forecasts higher but stuck with its call of a rate cut in both 2026 and 2027. Markets now move onto the next big inputs before year-end: namely, US jobs data and central bank meetings



Fed Chair Jerome Powell

### ➔ USD: It could have been worse for dollar bears

Investors were bracing for a hawkish rate cut. In the end, there were only two dissenters to the cut and the Fed kept a rate cut in their median forecast for 2026. Equally, it seems that Chair Powell was reluctant to be boxed into the view that the Fed was now on a pause. Instead, there was a firm script that the policy rate was in the broadly conceivable range of neutral, and the Fed stood in a good place to act.

As such, the press conference did not turn into the kind of hawkish bombshell we saw in October, and the dollar has ended up broadly flat/a little lower. Again, it could have been worse for dollar bears.

There was also some focus on the Fed's announcement that it would buy \$40bn of T-Bills over the next month. While this was a technical move to ensure there were ample bank reserves to address tight money markets, the prospect of slightly lower money market rates is probably a mild dollar negative as well.

As Powell mentioned, there is a lot of data due out before the Fed's next meeting in January. And Powell warned that the data could well be distorted by the technical difficulties around the government shutdown.

Investors will now wait for inputs from the November jobs data next Tuesday. And we've got some big central bank meetings over the next 10 days.

Arguably, yesterday's FOMC was the largest positive event risk before year-end. The fact that it has been passed could now see seasonal dollar weakness win through into year-end. DXY could end up drifting down to the 98.00 area.

*Chris Turner*

### ➔ **EUR: ECB optimists emerge**

EUR/USD ended a little higher after the Fed meeting. Also helping has been a string of ECB optimists referencing growth surprising on the upside. An additional ECB rate cut has now been priced out, but it may be far too early for the market to have the confidence to price in 2026 ECB rate hikes.

Expect EUR/USD to consolidate in the high 1.16s, and a move to our 1.1800 year-end target will probably take some soft US jobs data next week or some important positive growth forecast revisions from the ECB next week.

*Chris Turner*

### ⬇️ **CHF: SNB prays for ECB to turn hawkish**

The Swiss National Bank meets to set interest rates today. No change is expected in the 0.00% policy rate today or for the vast majority of 2026. It seems the SNB is a little in denial over its disinflation problem and presumably will stick to a set of forecasts which see CPI heading up towards the 0.8% area in late 2028. In fact, CPI this quarter has come in much weaker than the bounce back to 0.4% year-on-year that the SNB expected back in September. The October and November CPI came in at 0.1% and 0.0% year-on-year, respectively. Again, we believe there is a very high bar for the SNB to take rates negative, such as renewed QE from the ECB. Currently, large pension funds are being charged 25bp on the CHF deposits and the SNB does not want to make the situation any worse. But equally, the SNB will be very slow to hike.

So after a very poor Swiss third-quarter release of -0.5% QoQ, we expect the SNB to stay

doveish, say it has options of rate cuts and intervention to resist CHF strength, but in the end use neither in a sustained manner.

Instead, the SNB will be hoping that this week's hawkish re-pricing of the ECB curve has further to run. Or alternatively, that there is some positive news in terms of a ceasefire in Ukraine. Both of these would be clear positives for EUR/CHF. In our [FX Outlook](#) for 2026, we had felt EUR/CHF could end this year near 0.92 and rally towards 0.95 in 2026. But this hawkish reassessment of the ECB (growth forecasts potentially revised higher on 18 December) and still the remote possibility of a ceasefire in Ukraine now give us a bullish bias on EUR/CHF over the coming weeks.

*Chris Turner*

### **TRY: Turkish central bank will cut rates for the last time this year**

Today, the Central Bank of Turkey will make its final interest rate decision of the year. While the November inflation data should encourage the central bank to remain on its easing path, the latest 3Q GDP data and early indicators for the last quarter imply less supportive demand conditions for the disinflation process, increasing upside risks to the inflation outlook with the ongoing rate cut cycle and easing financial conditions. Accordingly, the central bank will likely remain cautious with a measured 100bp cut in the December MPC, in our view, though we should not rule out the possibility of a larger cut.

The rates market has seen a strong rally since the end of October and the latest inflation figures have somehow restored confidence in the disinflation process and the continuation of rate cuts. For today, the market is pricing in around a 100-150bp rate cut and unless the central bank surprises with a larger rate cut, we probably shouldn't see a major reaction. USD/TRY remains on an upward trajectory and we do not expect any changes in the current FX regime anytime soon, given the CBT's cautious approach to the cutting cycle. Therefore, we believe that TRY will remain a popular carry trade next year as well, despite the ongoing cutting cycle. For the middle of the year, we expect USD/TRY to be 48.40 and 51.00 at the end of the year.

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