

FX Daily: Let US election volatility begin

Markets are seemingly scaling back some Trump trades, and we suspect the next two days can see some abnormal swings in USD crosses due to tighter volatility conditions ahead of a closely contested and highly binary US election. There are also many central bank meetings this week. Regardless of the election result, we see 25bp cuts from the Fed and BoE



As the US presidential election goes down to the wire, we'll also be keeping an eye out for policy decisions from major central banks across the globe this week

➔ USD: Trump trades being unwound after latest polls

US election week is starting with a weak dollar across the board. Markets are still digesting the very soft payrolls numbers on Friday, which were highly affected by extreme weather events. Meanwhile, the latest polls suggest that the Democrats have regained some momentum in some swing states may have prompted some unwinding of Trump trades. Incidentally, a recent poll suggests that Kamala Harris is leading in Iowa, previously considered a red-leaning state.

The average polls collated by ABC's "fivethirtyeight" signal that Donald Trump is ahead in all swing states except for Michigan and Wisconsin, but by less than 0.5% in Nevada and Pennsylvania. Assuming Harris secures all blue lock/lean states (226 electoral college votes), then winning Michigan, Wisconsin and Pennsylvania would be exactly enough to get to 270 votes and get elected. Iowa, should it flip to the democrats, may not make much of difference given it only

grants six electoral votes (versus 19 for Pennsylvania). Our latest note on FX and the election can be found [here](#).

Polling stations open tomorrow morning, and by 9:00pm ET/2.00am GMT polls will have closed in all swing states (Arizona, Georgia, Wisconsin, Pennsylvania, Michigan, Nevada, North Carolina). Markets will start moving early as counting starts, but expect delays due to the large number of mail-in ballots and potential electoral disputes. There is a chance the outcome of the election won't be called before a few days; in 2020, the Associated Press declared Joe Biden the winner only on Saturday.

Despite some unwinding of Trump trades, asset markets are still broadly pricing in a Trump win. As things stand now, we expect the dollar to sell off if Harris wins, while the impact of a Trump win may depend more on the Congress composition. A Republican clean sweep can send the dollar higher, but probably by less than how much a Harris win could hit USD. The dollar might not rally at all if Trump wins but Democrats secure the house.

Another big event this week is the Federal Reserve's rate announcement on Wednesday. By then, the election results may have not been called yet, meaning the FOMC market impact could prove rather short-lived. As discussed in our [FOMC preview](#), the Fed should cut by 25bp regardless of the US election result. Had it not been for the proximity of the vote, we would have argued a Fed cut would have been net-negative for the dollar, but the implications for FX of this Fed decision will only be assessed once the election volatility has dimmed down.

Expect volatility in USD crosses today and tomorrow as FX liquidity may tighten and large hedging positions may be re-assessed on the back of latest sentiment on the vote. Today's momentum seems to be pointing to a weaker dollar, but things can turn rapidly in intraday trading. We retain a bias for a stronger USD today and tomorrow from this morning levels.

Francesco Pesole

EUR: Boosted by weaker dollar

EUR/USD is back up this morning after a rollercoaster ride on Friday as US payrolls were released. This week will all be about the US election with probably very little contribution by the eurozone calendar.

The US election implications for the euro aren't only related to the dollar reaction. Markets have scaled back some European Central Bank dovish bets after the latest eurozone growth and inflation numbers, but probably remain open to pricing back in the chance of a 50bp December cut should Trump win this week. The rationale there is that the ECB will be more inclined to frontload easing given the risk of protectionism under Trump. At the moment, markets are pricing in 29bp of easing in December and an additional 30bp in January, which signals some residual bets on outsized cut remaining in place.

EUR/USD has briefly traded above 1.0900 this morning on the back of broad-based USD weakness. Pre-election volatility is dominating, but the still-wide rate differentials suggest the pair is expensive at these levels.

Elsewhere in Europe, we have seen EUR/NOK test our 12.0 near-term target, which likely mirrors some deterioration in FX liquidity conditions ahead of the US vote. The krone's weakness will likely

keep Norges Bank a hawkish outlier this week, with markets pricing in no risk of a cut at the Thursday meeting. Another development in the Nordics is the Riksbank meeting (also on Thursday). As per our [preview note](#), we expect a 50bp in line with consensus and market pricing, and see only a severe post-US election SEK selloff potentially tilting the balance to 25bp.

Francesco Pesole

➔ GBP: Calm restored

Friday's session seemed to signal that some calm has been restored in the gilt market, and that favoured a EUR/GBP decline back below the 0.8400 mark. Our short-term fair value model shows a rather modest risk premium of around 0.6% in EUR/GBP at the moment. As discussed last week, the pound and gilt markets are unlikely to face a rerun of the post-2022 mini budget crisis, but some gradual repricing higher in gilt yields on the back of wider expected borrowing can still weigh on the pound along the way.

On Thursday, the Bank of England announces policy and a 25bp is widely expected. Markets will probably be more interested in hearing what the MPC has to say about last week's budget. While the Office for Budget Responsibility sees the announced fiscal measures are both pro-growth and inflationary, our UK economist does not expect them to significantly alter the BoE's view.

For now, Governor Andrew Bailey may focus on the recent drop in services inflation and could try to drive the attention away from the budget and back to data. That could be read as a dovish signal for BoE rate expectations, and there is probably room for more easing to be added to the GBP swap curve, which is currently pricing in 32bp over the next two meetings. A dovish repricing can weigh on the pound this week, but should it also come with some lower long-end gilt yields, some inflows into sterling markets can offset selling pressure on GBP.

Francesco Pesole

⬇️ CEE: Central bank decisions in the shadow of the US election

While the main focus this week will clearly be on the global stage, the calendar in the CEE region is also busy. After Friday's public holidays, we will see delayed PMIs in Poland and Hungary. Friday's numbers from the Czech Republic showed a surprising improvement and we could see a similar improvement today. October inflation numbers in Turkey have already been released this morning, showing another drop from 49.4% to 48.6 % year-on-year, slightly above market expectations (48.3%).

On Wednesday, we will see the National Bank of Poland's decision to leave rates unchanged at 5.75% and the governor's press conference a day later. Industrial production numbers for the Czech Republic and Hungary will also be released. The Czech National Bank meets on Thursday and we expect another 25bp rate cut to 4.00%. At the same time, the central bank will unveil a new forecast that should see some dovish revisions. The National Bank of Romania will wrap up this week's central bank meetings on Friday. We expect no change at 6.50% in line with market expectations.

The FX market will be mainly driven by the US election this week. We expect currencies to remain under pressure today and tomorrow with low liquidity as in previous days. EUR/HUF remains vulnerable, having stabilised around 408 for the last few days, but we think the market will

continue to push the pair up. On the other hand, the current rebound of EUR/USD may dampen it, which could somehow stabilise the CEE market ahead of the US election result. We see this week's central bank meeting slightly negative for the CZK and neutral for the PLN. However, all this will likely be overshadowed by post-election repricing.

For an immediate reaction after the election result, the main channel through EUR/USD is clear. We discussed the longer-term impact on CEE in our [US election guide for the FX market](#). Although the bias here is clear and in general, the Harris scenario is positive for CEE and the Trump scenario negative for CEE currencies, against the market we believe the Trump scenario in the longer term is not necessarily that negative for the region and will depend on the details. However, for this week we believe our view will be best reflected in PLN/HUF. The pair did not move much in last weeks and the market moved short in both currencies (more in HUF). We believe that in case of a Trump win, HUF will be hit the hardest, while in the case of a Harris win, PLN will have an easier road to recovery.

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