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FX

## FX Daily: Limited FX fallout from France and Fed turmoil

It's becoming increasingly clear that Trump's dismissal of Lisa Cook is not going to have a big short-term FX impact. The implications may only play out in the longer run, as the current focus remains more on data. French politics also appears to be treated with plenty of caution by the currency market. We think EUR/USD can stabilise today



President Trump's firing of Fed Governor Lisa Cook (centre) is negative for the dollar, yet the FX reaction has been muted

### ➔ USD: Cook dismissal impact limited

President Trump's firing of Fed Governor Lisa Cook and the broad view that this marks further politicisation of the Fed are negative for the dollar. Yet, the FX reaction has been muted and may only play out in the longer run, likely for two reasons. First, Cook is challenging the decision, which will probably end up in court. Second, her departure won't have a big impact on the next few meetings. With Powell still in charge, markets expect policy to remain data-driven, and the dovish dissent remains too small to push for faster or larger cuts.

The real consequences of FOMC politicisation are likely to appear post-Powell – after May 2026 – assuming Trump doesn't remove him earlier. By then, a new chair with dovish leanings would need committee support to move on cuts, but that's too far out for markets to price in. Also,

the new chair's easing scope will be limited if Powell lowers rates by 100bp to around 3.5% by then, as markets expect.

The most visible market impact so far has been the underperformance of 30-year Treasuries. But long-dated Treasury selloffs are more likely to weigh on the dollar when driven by fiscal concerns rather than inflation. With front-end yields fairly stable, it's no surprise the dollar is holding ground.

It's reasonable to expect headlines on Cook's firing to lose impact over time, as has happened with similar episodes since Trump took office. Trump's unpredictability on many fronts – including Fed relations – has made markets increasingly reluctant to stray from the narrative set by data and official communication. Reports this morning that the White House is seeking more influence over regional Fed president picks had little effect.

We expect the dollar to stabilise after solid data yesterday – consumer confidence and durable goods orders beat consensus – and given today's light calendar. The week's focus will shift to GDP revisions and July's core PCE on Thursday and Friday.

*Francesco Pesole*

### ➔ **EUR: Euro proving resilient to France**

The euro is not actively trading on the French political turmoil, but it's likely facing some degree of restraint from it. French equities had another bad day, but what matters is OAT's performance. The euro's correlation with EU bond spreads to German bunds tends to be either very low most of the time or quite high for short bursts. For Italian bonds, the pain threshold was around 200bp; for French bonds, we don't have enough history to be sure, but a break above December's high of 90bp (currently 77bp) can trigger a significant euro reaction.

Such a move would suggest fiscal concerns are outweighing political instability. The latter seems largely priced into the OAT risk premium, given that politically stable Italy is trading at almost the same 10-year yield despite a BBB+ rating.

Markets are still making up their minds about the aftermath of the upcoming confidence vote and don't seem in a rush to price snap elections as the baseline scenario. The alternative – this or a new government watering down spending cuts enough to gather parliamentary support and deliver some fiscal consolidation – is plausible, though admittedly a relatively narrow path given the heightened scrutiny it faces.

Anyway, markets appear to have absorbed the initial bad news and might stabilise ahead of the actual vote on 8 September. The euro will look at the July ECB minutes today and should be free to benefit from any indications of a bigger hawkish front, seeing no more need to cut rates. We think EUR/USD can hold above 1.160 and ultimately make its way back to 1.170.

*Francesco Pesole*

### ➔ **GBP: Still good short-term outlook**

Another indication that French politics is having a limited FX impact is EUR/GBP, which has faced only limited downside pressure since the start of the week. That said, the balance of risks remains more tilted to the downside for the pair, with the hawkish repricing in Bank of England rate expectations still underpinning decent GBP short-term momentum.

A test of 0.860 remains possible, even though our longer-term view is less optimistic on GBP given the possibility of a dovish rethink of BoE cuts later in the autumn. In GBP/USD, we still think a structural break above 1.35 is a matter of when rather than if.

*Francesco Pesole*

### ⬇️ **HUF: Same forward guidance, but another step closer to a rate cut**

Yesterday's meeting of [the National Bank of Hungary](#) did not bring much new information. Rates and forward guidance remained unchanged as expected. The only thing that caught our eye was a question during the press conference about the upcoming Fed cuts and whether this changes anything for the NBH. Of course, the governor emphasised that the focus is on Hungary and the inflation problem, but this is clearly welcome news for the NBH and potential rate cuts in future. Although there is some probability of a rate cut this year, our baseline remains stable rates until the beginning of next year. The extension of price measures seems like a welcome change for the NBH, but it is not a game-changer either.

Still, the market remains on the hawkish side with a 50% chance of a rate cut this year and a 5.60% priced terminal rate. This morning, we will see June wage figures, which we expect to be weaker than market expectations, fitting the picture of a weak economy and downward surprises in recent months. Together with the outpricing of positive sentiment from US-Russia negotiations and the unwinding of long positioning in HUF, we are on the bearish side for the coming days.

*Frantisek Taborsky*

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