

## FX Daily: Looking for alternatives to the long-dollar trade

We are entering a period of calm in US macro news. This means that it's mostly up to any positioning readjustment to keep the dollar from rallying further. Growing focus will be on the eurozone and PMIs, where any soft read can be the ultimate trigger for a break below 1.05. Elsewhere, UK CPI should not lead to a Bank of England December cut



### ➔ USD: Some positioning concerns remain

Data from CFTC on speculative positioning show net USD longs versus the rest of G10 rising to the highest since July until last Tuesday. In open interest terms, that is 12%, according to our calculations. That is a quite high figure, just above the 1-standard-deviation upper bound, however it is still well below April's 24% peak. Long USD positions likely grew further throughout last week, but CFTC figures probably fail to capture the depth of the shift to a structural bullish stance on the dollar after Donald Trump's election. Our perception remains that market positioning is quite stretched on dollar longs, and the greenback remains at risk of some technical correction in the near term.

At the same time, the macro story hasn't really offered any reason for second thoughts on the dollar rally. Inflation data has been hotter than the Federal Reserve's target would tolerate, and Chair Jerome Powell added a layer of caution on future easing in a speech last week. With very little extra information on the US economy being added this week, the market-implied policy divergence between the Fed and most other G10 central banks could mean that any positioning-led correction will be short lived.

Ultimately, our economists' call is that the Fed will cut in December. Markets are pricing in 15bp, so there is room for a dovish repricing to hit the dollar. However, that repricing may not happen before jobs data are released in 18 days. That is a relatively long period for markets, and one where – net of any positioning-related wobble – the long dollar “Trump trade” may remain the only clear-cut directional call in FX. We suspect DXY will still find support around 106.0 in case of a correction, and there is a tangible possibility it will be trading above 107.0 by Thanksgiving.

This week, expect market focus to remain on Trump's cabinet nominees, in particular when it comes to the Treasury. The only potentially market moving data releases aside from jobless claims will be the leading index, which has however had very limited predicting ability for the direction of the economy. We'll also be looking out for S&P Global PMIs, which are expected to show more of the same for the US: weak manufacturing being more than offset by strong services. There are a few Fed speakers watch too, starting today with Chicago Fed President Austan Goolsbee, who is considered a dovish-leaning member.

*Francesco Pesole*

## ➔ EUR: Delaying the 1.05 break

PMIs have become an increasingly important release for the eurozone after the European Central Bank shifted the focus from inflation to growth and is now taking a broader range of soft activity data into account. The eurozone's composite PMIs is at 50.0, the break-even level between contraction and expansion, meaning a greater resonance of even small movements in the index when they are published on Friday – especially if on the downside.

Our economists are cautiously optimistic on the eurozone-wide figure, where they expect 50.2 (consensus is 50.0), although they suspect German figures could still disappoint. On this topic, expect a buildup in market scrutiny over the German snap elections in February and what those can mean for both Europe's (geo)political balance and prospects of any bending of Germany's strict debt rules. Our colleague Carsten Brzeski argues [here](#) how fiscal stimulus will have to come under the new government, regardless of the fiscal break. Still, that will take some time, and one of our key macro calls for 2025 remains that the ECB will need to do the heavy lifting in supporting the economy ahead of further protectionism-related growth headwinds.

Our short-term call for EUR/USD is that it can hold above 1.050 this week as dollar bulls take a break, but that is admittedly not a high-conviction view. As discussed above, the dollar momentum remains strong and there is no obvious catalyst for an inversion, outside of technical considerations. Obviously, soft EZ PMIs can easily prompt a break lower as markets could price in a 50bp ECB cut in December from the current 30bp. Ultimately, in line with our call for a half-point ECB move in December, we expect EUR/USD to trade around 1.04 at year-end.

Today, there are a few key ECB speakers, including President Christine Lagarde and Chief Economist Philip Lane. Remember how the latest ECB minutes showed some frictions within the

Governing Council on the sustainability of disinflationary drivers. With plenty of ECB-speak this week, we may get a slightly clearer picture of where consensus is on this.

*Francesco Pesole*

## ➔ **GBP: Still unexcited on a EUR/GBP rebound**

The big event in the GBP market this week is the release of the October CPI report on Wednesday. As usual, markets will be looking almost solely at the services inflation figure, which our economist sees accelerating marginally from 4.9% to 5.0%. However, when stripping out categories that are less relevant for the Bank of England, we see a substantial slowdown to 4.3% in “core services” inflation.

That would be good news for the BoE, but probably not enough to justify another cut in December. Incidentally, markets might focus a bit more on the “non-core” services CPI figure, sticking to cautious BoE pricing and put a cap on the recent tentative rebound in EUR/GBP. Our view on the pair remains moderately bearish in the near term as we see any dovish repricing in BoE expectations coming after a December outsized ECB cut.

*Francesco Pesole*

## ➔ **CEE: Spotlight back on the forint**

This week, attention will again turn to the region's central banks. Today we start with some PPI growth in the Czech Republic and steadily elevated core inflation in Poland.

Tomorrow, the National Bank of Hungary is scheduled to meet, and no change in rates at 6.50% is generally expected. As we discuss in our [preview](#), the NBH doesn't have many options at the moment despite inflation and GDP surprising to the downside. Friday's move up in EUR/HUF again shows that the risk-off mood here persists.

Thursday also sees a central bank meeting in Turkey. Again, we should see rates unchanged here at 50%. The focus will be on communication given the higher-than-expected inflation numbers but also a rather dovish tone in the latest inflation report. We expect the first cut in December but obviously it will be a close call dependent on the next inflation print.

CEE FX is still looking for new levels in the post-election environment. We remain generally bearish here. Lower EUR/USD, downside economic surprises and pricing in more rate cuts should continue to put pressure on FX. Additionally, Friday's sell-off in equity markets may bring back risk-off sentiment.

The EUR/HUF will continue to be the main focus this week, having regained above 408 on Friday. We believe the NBH meeting will return this story to the spotlight and EUR/HUF will be near 410 again into the meeting. The market has outpriced earlier rate hike expectations, while we saw some rally in HUF rates last week. We think positioning in HUF remains short, but less so than before the election. On one hand, this gives the space to add new short positions. On the other, it suggests that the NBH should have the worst behind it.

*Frantisek Taborsky*

## Author

### Francesco Pesole

FX Strategist

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

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@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).