

FX Daily: Loonie to remain G10's black sheep

As the USD shed some post-Fed gains at the start of this week, the Canadian dollar again stood out as an underperformer. The worsening jobs market, trade uncertainty and possibility of more Bank of Canada rate cuts should keep weighing on CAD against the rest of G10, in our view. Today is PMI day, with central bank speakers (including Powell) still in focus



The Canadian dollar has once again proved a negative standout in the G10 space

➔ USD: Powell to speak today

The dollar softened in line with our expectations at the start of the week, partly reconnecting with underlying short-term drivers. That happened despite three Federal Reserve members (Alberto Musalem, Raphael Bostic and Beth Hammack) sounding quite cautious on rate cuts. They do stand on the hawkish side of the spectrum, so that isn't hugely surprising, but their comments suggest the hawkish front remains relatively firm despite stronger dovish pressure.

At the same time, Stephen Miran outlined his hyper-dovish argument yesterday. He is clearly an outlier (as suggested by the Dot Plot distribution, too), and we doubt his words were the trigger of dollar weakening.

Today, Fed Chair Jerome Powell is due to speak. It doesn't seem likely he'll diverge much from last week's press conference comments, and we think markets may be more interested in hearing other FOMC members' opinions at this stage anyway. So it's worth keeping a close eye on speeches by Austan Goolsbee and Michelle Bowman, who are both on the dovish side of the spectrum.

On the data side, we have PMIs across some developed markets. In the US, they are less important than ISM surveys, but have better comparability with the EU and the UK. The risks remain skewed to the downside for the dollar this week, in our view, but today could see some consolidation.

Francesco Pesole

➔ EUR: PMIs to remain decent

By climbing above 1.180, the short-term undervaluation of EUR/USD is now less than 1% (fair value at 1.188 as of this morning). While the momentum for the dollar should continue to be mostly on the soft side in the coming days, the euro may take some time to make its way to the 1.190 mark as it is lacking a very strong domestic narrative.

That is, unless today's PMIs surprise materially on the upside in the eurozone relative to the US. Germany's manufacturing survey is expected to keep inching higher and reach 50.0 for the first time since 2022, bringing the composite figure closer to 51.0. Eurozone-wide figures are expected to flatten up after a good August print, with manufacturing, services and composite all staying above 50.0. On the ECB side, we'll hear from Georg Müller, Martin Kocher (both hawks) and Piero Cipollone (dove).

This shouldn't justify much more idiosyncratic enthusiasm for the euro, but it is probably enough to keep the common currency in a good position to benefit from more rotations away from the dollar. We expect EUR/USD to stabilise around 1.180 today, with further moderate gains possible later this week.

Francesco Pesole

➔ CAD: No respite in sight

Lower oil prices saw markets favouring European over commodity currencies yesterday, but the Canadian dollar was again a negative standout in G10. That, in our view, continues to mirror how unattractive the loonie is, also relative to currencies that have similar sensitivity to external drivers (e.g., the rest of the \$-bloc and the Norwegian krone), as domestic downside risks in Canada mount.

As discussed in last week's [FX webinar](#), the Bank of Canada looks likely to cut rates once again by year-end, with risks skewed to an additional cut (taking rates to 2%). The deterioration in the labour market is strictly tied to uncertainty about trade relationships with the US, which, by admission of the Bank of Canada, are unlikely to improve given the looming USMCA renegotiation.

CAD's exposure to worsening US macro sentiment, paired with unfavourable seasonality relative to peers like the Aussie dollar, points to further relative underperformance into year-end. USD/CAD should still make its way back to 1.370 in the fourth quarter on the back of USD weakening, but the bearish argument for the pair is not that compelling.

Francesco Pesole

📈 HUF: No change as another bullish signal for FX

The National Bank of Hungary is expected to leave rates at 6.50% today and present a new forecast. Forward guidance should [remain hawkish](#), and we are unlikely to see much change here. The new forecast shouldn't see too many changes from the last version in June, and overall, the meeting seems more like a non-event and a confirmation of the central bank's previous stance. As the economic data (including inflation and GDP figures) was not significantly different to the NBH's June staff projections, we don't think the central bank can justify a dovish shift.

Our economists have adjusted our longer-term outlook on monetary policy. While we still expect a total of 100bp of easing in 2026, we have updated the profile of the NBH rate cut cycle. Rather than gradual easing, we anticipate a back-loaded cycle starting in the second half of 2026. This will stabilise the forint in the 380-395 range over the next five quarters, providing a better opportunity to accelerate the reduction of inflation expectations and reset corporate mindsets regarding the forint's behaviour and their own pricing habits.

EUR/HUF has had a remarkable run during the summer months, and sentiment towards the HUF has changed significantly. A stronger FX does not necessarily mean automatic pricing in of more rate cuts any more. At the same time, the central bank has managed to build some market confidence in a longer-lasting carry, and the HUF has become a popular carry trade across the entire emerging market space. We've therefore changed our view on FX and believe that the current stronger levels will remain with us for a longer period of time.

Still, it is important to keep in mind that heavy long positioning makes FX vulnerable to global shocks. But at least in the short term, the HUF should continue to enjoy market favour, and the hawkish NBH should be another positive signal for the EUR/HUF to settle below 390.

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