

## FX Daily: Most focus is on the yen

FX markets are consolidating ahead of tomorrow's big US jobs release and the dollar is a little softer after the ISM Services release disappointed expectations yesterday. The collapse of the French government has not had much impact on the euro and most of the short-term focus is on whether the Bank of Japan hikes on 20 December after all. We think it will



USD/JPY is edging lower this morning

### ➔ USD: Dollar hands back some gains

The DXY dollar index is slightly softer after yesterday's release of the ISM Services index [disappointed consensus](#) and made an 18 December Fed rate cut more likely. Short-dated US yields came off quite a large 8bp on the news as the data served as a reminder that the Fed is in the middle of an easing cycle despite all the recent focus on the next US administration.

We also noted a column in the *Financial Times* from the respected FX watcher Barry Eichengreen. The article was titled: '[A turning point for the dollar is coming](#)' which sounds alarming for dollar bulls such as ourselves. But the majority of the article focused on why the dollar would strengthen first and then only soften in the medium term after the Fed had to slow tariff-induced inflation with rate hikes and then presumably cut rates into a recession too. That sounds like a bear story for the dollar in late 2026 at the earliest and possibly 2027.

And our view, as we [published last month](#), is that 2025 will be a year in which Donald Trump pumps more air into the dollar bubble. Indeed, some customers ask whether there will be some kind of 1985 Plaza-style accord to weaken the dollar. We see a low likelihood of that, but perhaps only in 2026 or 2027. History books recall that the Plaza Accord only came in four years after

Ronald Reagan's expansionary policies.

Back to the short term and the US data calendar is light today. Weekly initial jobless claims have been staying very low recently, but tomorrow's NFP jobs data will have a much bigger say in where the dollar goes next.

Events in Europe are keeping the DXY trade-weighted dollar relatively bid despite the drop in short-dated US rates. Again we would expect good dollar demand to emerge should it trade sub-106.

*Chris Turner*

## ➔ EUR: French politics to keep euro subdued

So the [French government has fallen](#). While some may see it as some kind of positive in that fiscal restraint is delayed, our economist Charlotte de Montpellier thinks that weak business investment means that France will only grow by 0.6% next year. Add in Germany contracting at 0.2% next year and eurozone GDP for the year comes in at just 0.7% – thanks to southern Europe! We see the ECB cutting rates to 1.75% next year. This should keep short-dated EUR:USD rate spreads near 200bp in favour of the dollar all year and, as Barry Eichengreen says, bring EUR/USD close to parity.

In terms of eurozone data today, we should see more soft industrial data and then a downward correction in eurozone retail sales. We are still minded that short-term resistance at 1.0550 may be the extent of the EUR/USD recovery and see a case that EUR/USD hovers near 1.0500 over the coming days – given there seems to be more than \$5bn of 1.0500 FX option strikes at that level expiring over the coming week.

Elsewhere, GBP:USD briefly sold off and then recovered after Bank of England Governor Andrew Bailey seemed to confirm that the BoE was looking at four rate cuts over the next year, with the market only pricing three. However, those remarks did look a bit 'technical' – in that they merely confirmed what the BoE had been using in its models for its forecasts. Expect EUR/GBP to stay gently offered and look out for inflation expectations at 1030CET today and a speech by BoE hawk, Megan Greene, at 18CET.

*Chris Turner*

## ⬆️ JPY: A BoJ rate hike is coming

USD/JPY is edging lower this morning as Bank of Japan dove Toyoaki Nakamura says that he's not averse to a rate hike. This follows much market oscillation on whether the BoJ would pull the trigger on a rate hike this month. We think it will and that tomorrow's October Japanese wage data will support that call.

The yen is performing well on the crosses as the prospect of a BoJ rate hike stands at odds with monetary easing underway elsewhere in the G10. [This week's events in Korea](#) have also added to the safe-haven buying of the yen. We are bullish on the dollar, but should tomorrow's US NFP data disappoint, dollar weakness should be most visible in USD/JPY.

However, a weaker EUR/JPY looks the cleaner trend here and a cross rate like SEK/JPY has already hit the target we put out [as part of our calls for 2025](#).

*Chris Turner*

## 📌 CEE: Hawkish central banks support FX

As expected, the National Bank of Poland (NBP) left rates unchanged at 5.75% on Wednesday and the accompanying statement did not bring much fresh news. In detail, however, it probably shows a slightly less dovish tone than in November. As we discussed in our FX Daily yesterday, given market pricing, today's NBP press conference may be neutral or slightly hawkish in our view compared to market expectations. After yesterday's statement, rates sold off by roughly 5-7bp, supporting a stronger PLN. EUR/PLN quickly reached yesterday's 4.280 level and we believe the press conference may add further support to PLN, on the other hand, current valuations seem stretched at current levels.

In the Czech Republic, wage growth surprised to the upside yesterday and significantly exceeded the Czech National Bank forecast. Also in line with our expectations, the CNB Governor delivered a hawkish message and hinted that a pause in the cutting cycle is near and may be for a longer period. Our economist's forecast of a pause in the cutting cycle in December and February is becoming very likely, which was also reflected in EUR/CZK moving below 25.200. Here we see some room for CZK to strengthen towards 25.100, and similar to PLN we see more tactical gains here.

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