

## FX Daily: Negative USD seasonality starting to show

The dollar decline is trying to gather some pace with December's negative seasonality pairing up with poor US data and lingering USD overvaluation relative to short-term drivers. We could see some stabilisation today, but we retain a bearish bias on the dollar, and our EUR/USD target for year-end remains 1.180



After yesterday's 32k drop in ADP payrolls, a Fed cut next week looks more certain

### ➔ USD: ADP validate rate cut bets

The drivers of yesterday's USD drop are to be found in the stabilisation of risk sentiment, some soft US data and the fact that the dollar's starting position this week was one of marked short-term overvaluation versus most of the G10. All this against a backdrop of the negative USD seasonality in December.

After yesterday's 32k drop in ADP payrolls, a Fed cut next week looks even closer to a certainty. The OIS curve is pricing in 25bp, meaning the Fed would face a potentially sharp adverse reaction in risk assets should it decide to hold. At the same time, there is only another 15bp priced in by

March, meaning that expectations are firmly on a hawkish cut in December. Our view remains that data will justify two more cuts early next year, which underpins our view that the dollar won't make a comeback even in the seasonally favourable first quarter.

Today, expect some focus on Challenger's job cuts and jobless claims. However, the big release of the week was yesterday's ADP payrolls, and unless PCE inflation spikes tomorrow (PPI and CPI for September suggest not), markets are unlikely to materially review their Fed pricing before next Wednesday.

This means we could see some stabilisation in the dollar today, even though adverse seasonality and some lingering overvaluation against most G10 peers mean the risks remain predominantly on the downside.

*Francesco Pesole*

## ➔ EUR: Still relatively cheap

We continue to have 1.170 as our EUR/USD target for next week's Fed meeting and 1.180 as our year-end target. As discussed above, seasonality should help, but it's also worth noting that our short-term fair value model continues to point to around 1.1% undervaluation in the pair.

The week hasn't led to any major progress on the Russia-Ukraine peace talks so far. The meeting between US envoys and Russian officials in Moscow has led to a cautiously constructive tone, but with little indication that we may be close to a breakthrough. We still think the euro has room to benefit should a truce deal be reached by Christmas.

*Francesco Pesole*

## ➔ SEK: Cooling inflation irrelevant for now

Sweden's preliminary inflation figures for November came in lower than expected. Headline CPIF slowed sharply from 3.1% to 2.3% (exp. 2.5%) and the core measure excluding energy from 2.8% to 2.4% (exp. 2.6%).

Despite the larger-than-expected deceleration, the bar for any dovish repricing in the SEK OIS curve remains elevated. The Riksbank cut rates to 1.75% without any strong dovish data signals and would need to see some material risks of inflation undershooting the target before putting another cut on the table. Especially considering the growth outlook has improved.

We remain confident in the EUR/SEK profile presented in our FX Outlook, with 10.90 as a target for end-December, and then a gradual decline to 10.50 by end 2026.

*Francesco Pesole*

## ⬆️ ZAR: The stars align

USD/ZAR is back at the lows of the year. The positives are stacking up for the rand. South African government bonds have been some investors' favourites this year, where the shift to a 3% inflation target and a credible budget (prompting an S&P sovereign upgrade) have helped 10-year yields drop from 11% to 8.25%. This comes at a time when the metals rally is pushing South Africa's terms of trade to the highs of the year, a big support for the rand.

We also note that credit growth has now turned decisively higher, perhaps helped in part by consumers knowing they can access some of their pensions early as part of last year's reforms. This should be good for growth. Add in an improved outlook for FDI after South Africa was taken off the Financial Action Task Force's grey list, and the investment proposition has improved markedly.

In our recent [2026 FX outlook](#), we presented a USD/ZAR target of 16.50 for later next year. But it seems like USD/ZAR has a shot at decisively breaking under 17.00 before year-end.

*Chris Turner*

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