

FX Daily: Prepping for a hawkish Fed cut

After this week's 'rate ripple', the focus today switches to North America. Here we have policy meetings for both the Fed and the Bank of Canada. The Fed is widely expected to deliver a hawkish cut, which leaves the risk on short-dated US rates and the dollar skewed to the upside. For the BoC, there could be some pushback against rate hikes priced for 2026



Fed Chair Jerome Powell

👆 USD: Looking out for Fed dissenters and the Dot Plot

It's FOMC day and a 25bp rate cut – which would take the target rate to 3.50-3.75% – is around 90% priced in. The big focus will be the Summary of Economic Projections (SEP), the number of dissenters against the 25bp cut, and then Chair Powell's press conference. Here is our [preview](#). Our US economist, James Knightley, sees a risk of up to four Fed dissenters, versus one in October, and the Fed probably keeping just one rate cut in 2026 in the SEP. This compares to the close to two additional rate cuts priced in by the markets for 2026. There will also be a focus on growth and the unemployment rate projections, which in September stood at: GDP 1.8% (26), 1.9% (27), 1.8% (28) and unemployment at 4.4% (26), 4.3% (27). GDP is at risk of being revised higher, while projections for the unemployment rate could be nudged higher.

In October, Powell's press conference sent the dollar sharply higher. Presumably, those risks

remain today as he discusses dissent in the decision and the fact that three back-to-back rate cuts have taken the policy rate much closer to neutral. Clearly, the pricing of a second rate cut in 2026 is at risk today and comes during a week when investors are hawkishly reassessing global central bank policy.

While all the above sounds dollar positive, it is also widely expected. And perhaps it is still a surprise that the rates market still has so much easing priced in. Presumably, this is the Kevin Hassett effect, where his arrival at the Fed in February can throw a dovish cloak over the FOMC outlook. It could be hard to find anything dovish in today's Fed communication, but at a stretch, any announcement by the Fed to [buy more Treasury bills](#) than required to meet balance sheet maturities could somehow be read as a dollar negative. This would be a technical move to keep the balance sheet at the same size in GDP terms, however.

DXY could trade up to 99.60 today on a hawkish cut, but the release of what should be soft jobs data next week and seasonal December weakness suggest that today's dollar rally might not last.

Chris Turner

📉 EUR: Politics and geopolitics

The EUR/USD has moved slightly lower as USD rates have increased this week. As above, the FOMC risk is a negative one for EUR/USD. A bearish re-pricing at the short end of the US curve could trigger a drop back to the 1.1585/90 area. There is also an outside risk of 1.1555/65 in thinning year-end markets. However, EUR/USD may not stay down there long, and we would continue to favour a bounce back – potentially as high as 1.1800 – by the end of the year.

In eurozone domestic politics, we've seen France pass an important [social security budget](#). Yet the difficulty in getting that done bodes ill for getting a 2026 state budget passed this year and French fiscal risk will remain a weight on the euro in 2026.

At the geopolitical level, there is a focus this week on EU officials using emergency powers to outmanoeuvre Hungary and freeze EUR210bn of Russian assets, to be used as a reparation loan for Ukraine. European leaders are desperate to make this happen, such that Ukraine is not bulldozed into a ceasefire by the US and Russians.

On that subject, political consultants suggest that a ceasefire deal is still possible. We mention all this in the context of the euro, since some asset managers are concerned that the abuse of property rights could undermine the safe haven status of the euro. We have seen no indication of that in any flow data so far, and as long as the ECB is not drawn in to back-stopping Ukraine loans, we doubt this development will notably weigh on the euro.

Chris Turner

📉 CAD: Too early for BoC to sanction hikes

The BoC meets today to set interest rates. The policy rate is unanimously expected to be left at 2.25%. The meeting comes at a time of hawkish global re-pricing – led largely by Australia. In fact, money markets now price in 30bp of BoC hikes by October next year.

In its September monetary policy report, the BoC took one of the dimmer views of the global economy. And we think the fact that Canada is subject to a USMCA renegotiation in 2026 leaves

policymakers cautious – even though there is supportive government fiscal stimulus. Additionally, a lot of the strong recent job numbers in Canada have been driven by part-time, not full-time employment.

It thus looks too early for the BoC to sanction 2026 rate hikes, and we see downside risks to the CAD today.

Chris Turner

📉 CEE: Czech inflation numbers may show a weaker core

In the Czech Republic, final inflation figures will be published today, confirming a surprising drop from 2.5% to 2.1%, which could confirm or refute a tick down in core inflation from 2.8% to 2.7% YoY. In Hungary, the debt agency will present its funding strategy for next year, where attention will be paid to the structure of how the Hungarian government wants to cover the recent increase in the public finance deficit to 5% of GDP.

Currencies in the region took a break yesterday after the previous weakening, and today will focus mainly on the Fed and global story. Still looking at rate differentials, we see rather weaker CEE and yesterday's rate move only supports this direction. However, EUR/USD may determine the next direction today and indicates rather more downside risk for CEE currencies.

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