FX Daily: Rates market launch their own hostile takeover

Just like London buses, you wait ages for a hostile takeover and then two come along at the same time. That was the story yesterday with Paramount launching a hostile bid for Warner and short-term interest rates launching their own hostile takeover of global financial markets. A bearish re-pricing at the short-end of rate curves may keep the dollar bid

Monday's moves saw investors questioning whether global easing cycles were over, helping the dollar

USD: Rates repricing versus jobs data

The comments from the ECB's Isabel Schnabel yesterday rippled through interest rate markets around the world. Traders were naturally reassessing that if the next move in ECB rates is up, why is the market pricing in a further 90bp of Fed easing? Those thoughts prompted a 4-5 tick sell-off in Fed Funds futures contracts for late 2026 and the Fed terminal rate for next year has now been re-priced 20bp higher to 3.13% over the last two weeks. The move higher in US rates also weighed on US growth stocks as discounted cash flows were repriced lower. One quick word of caution here. We think Schnabel's remarks were largely sent out as a counterweight to the four to five vocal ECB doves pushing for another rate cut. In other words, she might not privately be as hawkish as her comments suggest.

Even though short-term euro rates led the global short-end higher yesterday, the news actually weighed on EUR/USD. Here, the reassessment of the Fed easing cycle proved the bigger story. There are now high expectations of a 'hawkish cut' at Wednesday evening's FOMC decision. We had felt that the short-end of the dollar's upside was vulnerable to this FOMC event risk.

With the FOMC meeting looming, we suspect today's data may not be enough to weigh heavily on the dollar. The focus here will be on US JOLTS data, which we haven't seen since August. These are expected to slow, as will the quits rate and the vacancies to unemployed ratio. We will also see the weekly ADP jobs release data and the NFIB small business optimism survey. The latter could surprise positively.

With market pricing of further Fed easing still vulnerable, we suspect the dollar's downside is limited into the Fed meeting. And DXY could have a run up to 99.30 if there are any upside surprises in today's data. USD/JPY might be the focus here if global rates are playing catch-up with the Bank of Japan's tightening cycle. A move through 156.10/20 could open up 157.00/20 ahead of next week's BoJ meeting.

Chris Turner

CEE: Lack of peace news leaves region exposed to narrower rate differentials

The currencies of the region came under pressure yesterday with the forint leading the losses. EUR/HUF quickly broke through 384 and proved even more sensitive than we discussed here yesterday. On the local side, the downgraded rating outlook from Fitch probably weighed. However, this may have been priced in to a large extent earlier, and we blame global trends in particular. The spike in EUR rates pushed CEE rates up, but we still saw a strong narrowing of interest rate differentials, and across the region this trend has been indicating weaker FX for the last few days. We saw the Ukraine story and potential boost for the region as a reason to ignore these signals, but it seems the market has run out of patience.

Typically, EUR/CZK is mostly driven by the rate differential in the region and currently rates are pointing for further upside to 24.350 in our models. EUR/HUF should probably have more upside as well, especially with inflation numbers, with downside risk in our forecast and room to price in more rate cuts from the National Bank of Hungary. Therefore, 383-384 may not be enough and 385-386 levels would be an easy way out if inflation surprises the market lower today.

At the same time, there is still a possibility that we will see some progress in negotiations between Ukraine and Russia. On the other hand, after such a long time, the market would want some tangible results, which are not coming for now, leaving CEE exposed to narrower rate differentials.

Frantisek Taborsky

EUR: Better supported, but watch out for French risk

Schnabel's supportive remarks about the euro were drowned out by the reaction to short-dated US rates yesterday. EUR/USD ended a little lower. The background environment for the euro is a little more supportive, however. Energy prices continue to tumble and the German parliament has today voted for a EUR52bn military spending package. One of the core views of our macro team is that German fiscal stimulus is for real and should really start to make a difference to eurozone growth in the second half of 2026.

Our Rates Strategy team made some great points in their Rates Spark today. Namely that the rise in short-dated euro rates can be well justified, but the next leg for eurozone rates may be more curve steepening – i.e. rate rises happening more at the long end of the curve. There is also the small matter of the Dutch pension reform, which looks set to deliver much volatility to the long end of the curve at the start of 2026.

As above, EUR/USD will struggle to make gains ahead of tomorrow night's Fed decision and could in fact come lower should French politics make a re-appearance. Failure to pass a social security budget in the French parliament today would be greeted negatively by markets and could re-insert some political risk back into the euro. 1.1585/90 could be the target for EUR/USD should the French vote fail.

Chris Turner

AUD: The RBA's easing cycle is over

Reserve Bank of Australia policy expectations have actually been the front-runner in the global rush to reassess policy easing cycles. Over the last six weeks, the one-month AUD OIS priced one year forward has swung from 3.08% (implying around 50bp of RBA cuts) to 4.07% (close to 50bp of RBA hikes).

Last night's RBA meeting provided more fuel to the fire, with governor Michele Bullock seemingly ruling out any further rate cuts and contemplating rate hikes next year should core inflation prove persistent, and the labour market hold up.

The Australian dollar was one of our top picks in our 2026 FX Outlook, and we think a cross rate, like GBP/AUD, has plenty of room to correct lower.

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