FX Daily: Settling into ranges

Saturday's news on China's fiscal stimulus has left investors a little disappointed, although the market reaction has been muted because of holidays in the US and Japan today. The ECB meeting and September US retail sales data probably make Thursday the most interesting day of the week. It looks as though the dollar will probably hold onto recent gains

Investors were left guessing about the key details of China's stimulus package this weekend

USD: Range-bound

Casting around the globe to identify key FX drivers, we note the following: Saturday's China fiscal stimulus measures lack detail, oil is steady as markets await Israel's retaliation against Iran, and equity markets remain generally supported following strong US bank earnings released on Friday and expectations of positive announcements in the chip sector this week. The dollar is holding recent gains as investors now price in less than 50bp of Federal Reserve rate cuts this year. We doubt short-dated US rates will move much higher from here, even though Fed hawk Raphael Bostic has floated the idea of the central bank skipping a meeting in its rate-cutting cycle.

What impact will events have on the above this week? US data is second tier until Thursday's release of US September retail sales. Consensus expects the retail sales control group to rise a healthy 0.4% month-on-month, supporting the view that US growth is continuing. James Smith notes in his Think Ahead column that US growth was running at a very respectable 3.2% quarter-on-quarter annualised in the third quarter. We do have a few Fed speakers this week who could firm up the idea of two 25bp Fed cuts this year – which might prove very slightly dollar negative given current market pricing. The Fed's Christopher Waller speaks on the economic outlook at 9:00pm CET.

On a quiet news day, we also see a Financial Times interview with Donald Trump's potential treasury secretary, Scott Bessent. He highlights that, if elected, Donald Trump would not try to weaken the dollar for trade gains. This is probably in line with most market thinking now – i.e., despite what Donald Trump might say about the dollar, his policies look positive for the currency in any case.

Expect a quiet day of trading given that the US Treasury market is closed for Columbus Day. DXY is set to stay bid in a 102.70-103.20 range.

Chris Turner

EUR: Eurozone malaise already priced into the euro

After a grim couple of months for eurozone data, the interest rate market now prices the European Central Bank's deposit rate being cut to 2.00% next summer. Our eurozone team have recently reached the same conclusion. If anything, there is a slight risk that the ECB under-delivers on the easing cycle, and we do not expect the two-year EUR:USD swap differential to widen much further from here; we would not chase EUR/USD sub 1.0900 from this point unless, for instance, we saw a sharp spike in oil prices.

In the bigger picture, we see EUR/USD trading just above the middle of a 1.0550-1.1150 two-year trading range. November and especially December are typically more bearish months for the dollar, but the outcome of the US presidential election on 5 November will set the tone. For the time being, we suspect EUR/USD can hold support in the 1.0850/1.0900 area and could get a lift if Thursday's ECB meeting isn't quite as dovish as the market is now pricing.

Chris Turner

GBP: An important week for the BoE story

This week's release of UK jobs and especially inflation data on Wednesday could have a decent say in the pricing of the Bank of England's easing cycle and sterling. UK rates have been dragged higher by those in the US over the last few weeks – even though BoE Governor Andrew Bailey has said the Bank could become a 'bit more activist' should inflation data allow it. Inflation data may well allow it this week if the UK September services CPI drops back to 5.2% year-on-year as consensus expects.

This means that EUR/GBP could hold support at 0.8350 this week and retest the recent high at 0.8435. GBP/USD could press the 1.3000 area. We doubt that today's UK investment summit will have a major impact on sterling, despite the bullish headlines. Instead, investors are waiting to see what UK Chancellor Rachel Reeves does with her first budget on 30 October.

Chris Turner

CEE: Calm will cure the market

The second half of the month is usually quieter in the CEE region, but we still have a tight situation in the rates and FX market. Today, only the current account numbers for Poland and the Czech Republic for August will be published. Tomorrow in Poland, the final inflation numbers for September will be released, which should confirm a rise in inflation from 4.3% to 4.9% YoY and the state budget. Wednesday in the Czech Republic sees the release of PPI numbers for September and core inflation in Poland, which our economists expect to be higher from 3.7% to 4.2% YoY.

The Central Bank of Turkey is scheduled to meet on Thursday and, in line with expectations, we forecast no change in the rate at 50%. Given the upside surprise in inflation in September, we can expect a more hawkish tone from the central bank. We also have some speakers scheduled this week. In Hungary, the finance minister, economy minister and deputy governor of the National Bank of Hungary will speak on Thursday. Given EUR/HUF levels, this could be a key event in the region this week. We may also see a comment from a Czech National Bank board member following surprisingly high September inflation data.

The FX market is starting to diverge with gains in PLN and CZK, while HUF has returned to weaker levels. With local rates remaining paid and the geopolitical situation moving sideways, we remain bullish on the region following the move in recent days. PLN and CZK should therefore continue to benefit from the high rate differential if the global story remains in check. On the other hand, the HUF seems to remain in market adversity. Thursday's speakers may point to the next direction here.

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