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FX

FX Daily: Soft dollar trend remains intact

A soft-looking set of US jobs data yesterday took the DXY dollar index down to the lowest levels since early October. And the big drop in energy prices should prove a boon to the energy-importing currencies in Europe and Asia. For today, the German Ifo could disappoint in line with the local PMI releases, and a speech from the Fed's Waller could be influential



Federal Reserve Board Governor Christopher Waller

📉 USD: Payrolls keeps the dollar offered

The [combined release yesterday of October and November jobs data](#) did not alter the Fed's narrative that the risk to the US labour market is on the downside. Notable was the rise in the unemployment rate to 4.6%. While Chair Powell has said that data releases will be distorted by the government shutdown, he has also spent much time positioning the unemployment rate as the best read on the supply-demand imbalance in the US labour market. The 4.6% rate is now higher than the median rate (4.5%) expected by FOMC members for the end of 2025. We only saw a 2bp drop in the US yield curve on the news. So, no game changer, but enough to keep expectations alive that the Fed can cut further in 2026.

There is no significant US data today, but we do have a speech on the economic outlook from

the Fed's Christopher Waller. He speaks at 14:15 CET. While belatedly favouring the rate cut we saw last week, we have also seen him questioning whether US consumption converges on the soft labour market (meaning the Fed should cut more) or whether the US jobs market converges upwards on resilient consumption (indefinite Fed pause). That question may well remain unresolved after yesterday's data, as October retail sales were quite strong. Yet suffice to say, Waller's speeches on the economic outlook have proved influential in recent years and were he to err towards a conclusion of this riddle, markets would react.

DXY has support at 97.80/85. But unless Waller reaches some quite dovish conclusions, this support level probably holds into Thursday's European Central Bank meeting.

Chris Turner

➔ **EUR: Options expiries at 1.1750/1800 could keep EUR/USD sticky**

EUR/USD briefly touched our long-standing year-end target at 1.1800 yesterday and has since receded. We note that approximately \$10bn worth of option expiries are due to fall over the next week, with strike levels between 1.1750 and 1.1800. This suggests EUR/USD could hang around these levels for a while. As mentioned yesterday, the supply-driven fall in energy prices is good news for the euro, but EUR/USD will face some event risk in the form of Thursday's ECB meeting. Here the hawkish comments from the ECB's Isabel Schabel really reverberated through FX and rates markets last week. Should she be exposed as a hawkish outlier on Thursday and eurozone growth forecasts be revised insufficiently higher, then the euro could get hit.

Today we also have the German Ifo index. Expectations are probably subdued after a soft set of German PMIs led to a [weaker eurozone composite reading](#) yesterday. Look out for the expectations component of the Ifo here – seen closely aligning with business investment plans. Any pick-up above the 90.5/90.6 consensus would be positive for the euro – and vice versa.

Chris Turner

⬇ **HUF: Ready to cut the rates**

[The National Bank of Hungary left rates unchanged at 6.50%](#) yesterday, as expected. The new forecast brought a dovish shift, with inflation moving from 3.8% to 3.2% on average next year and, at the same time, worsening the economic outlook. However, the main surprise came from the press conference and the dovish tone of Governor Mihaly Varga. The Governor mentioned that he will evaluate new data on a meeting-by-meeting basis and, if the numbers are favourable, the central bank will be ready to cut rates.

Although the market was preparing for a possible dovish tone, the central bank managed to

surprise. Rate markets have priced in an additional 10bp of rate cuts next year for a total of 60bp and the terminal rate has fallen to 5.72% in 2027. Given the central bank's dovish tone yesterday and our updated forecast, we see room for the market to price in more rate cuts, particularly if inflation numbers continue to surprise on the weaker side.

The HUF reversed all earlier gains yesterday and is weakening slightly, but we still believe that EUR/HUF will go up in the coming days. The rate differential vs EUR is heading towards the narrowest levels since May, indicating upside for EUR/HUF in the range of 386-388. On the other hand, the dovish turn comes in favourable conditions for the central bank. The region is receiving support from growing hopes for a peace agreement between Ukraine and Russia, from which HUF would benefit the most within the CEE region, in our view, and EUR/USD is testing new highs. If the trend does not turn in these two stories, it will mitigate the upside risk in EUR/HUF and the central bank may feel the market support in a dovish direction looking forward.

Frantisek Taborsky

➔ **CZK: Inflation is heading below the central bank's target**

Yesterday, the new government approved subsidies for the sustainable part of the regulatory component of the final electricity price for households and businesses. This should reduce electricity prices for households by 10% and more for businesses from January 2026. In our opinion, this is a game-changer for headline inflation next year and, according to our estimates, cuts inflation by 0.4pp. Added to this are lower market energy prices, which additionally reduce headline inflation by around 0.2pp. Overall, the inflation profile has decreased by 0.6pp next year compared to the Czech National Bank's assumptions. In addition, the recent postponement of ETS2 from 2027 to 2028 also shifts the central bank's forecast down by 0.6pp in 2027.

This means that inflation next year will fall below the 2% inflation target as of January. For now, we do not expect this to be a reason to cut rates, but the probability has increased significantly. At the same time, the current hawkish market pricing will come under pressure soon, in our opinion, which will also put some pressure on the koruna. Although economic fundamentals are still supportive for FX, and we remain bullish on the CZK next year, the appreciation will be slower than this year, in our view.

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