

FX Daily: Sterling can dodge the budget bullet

Growth figures for 3Q are published in the US and eurozone today. German CPI is also expected to have re-accelerated, but the impact on the euro may be limited. In the UK, Chancellor Reeves announces her long-debated budget. Sterling is pricing in no risk premium, suggesting downside risks, but our baseline is a cautious budget and limited market impact



Chancellor of the Exchequer Rachel Reeves outside 11 Downing Street on Tuesday

USD: A blip in the strong US jobs story

The latest US macro news has dampened the dollar rally. Consumer confidence rose more than expected from 99.5 to 108.7 yesterday, the strongest monthly gain since March 2021. Interestingly, for the first time since July 2023, the survey shows some improved optimism about future job availability.

The indications from the JOLTS job openings instead pointed to some cool-off in the jobs market. There was a revision in the August figure down to 7.8m, and the September print was 7.4m – well below the consensus of 8.0m. The JOLTS report also includes the quits rate, which has decreased sharply to 1.9% from the 3% early-2022 peak, when a high number of workers were leaving their

jobs for higher-paid roles elsewhere.

The falling quits rate can indicate that there is indeed a greater scarcity of jobs – and above all less salary competition to attract talent – but also that workers are more worried about the outlook and value job security. This is a net-negative indicator for the jobs market, but payrolls data needs to follow through with a soft read on Friday to convince markets to price back in Fed easing. The Fed funds futures curve is embedding 45bp of cuts over November and December.

Today, the US will release the advanced third-quarter GDP report, which includes the quarterly core PCE figures. These are expected at 2.1% QoQ, a decline from 2.8% in the second quarter. The annualised GDP print is expected again at 3.0%, meaning there was strong economic momentum into the Fed's 50bp September cut, a notion that should keep FOMC members cautious on future easing plans. The ADP payrolls for October are also released today and are expected to have declined from 143k to 111k. Those have limited predictive power for actual payrolls, but can still move the market.

We suspect a strong growth print can prevent the macro story from turning dollar-negative before payrolls on Friday, and allow Trump hedges and rising implied volatility to feed into a stronger dollar.

Francesco Pesole

📉 EUR: Data overflow

Growth and inflation data across the eurozone begin to flow in today. This morning, French third-quarter GDP figures came in one-tenth above consensus at 0.4% QoQ, and we'll see Spanish, German and Italian growth numbers before the advanced eurozone print is released at 11.00 CET. Consensus is expecting a second consecutive 0.1% QoQ contraction in Germany, and unchanged 0.2% QoQ eurozone-wide growth.

The greater emphasis by the ECB on growth's downside risks means these GDP numbers can have a higher market impact than usual. Incidentally, the Governing Council's sanguine stance on inflation and their explicit tolerance for some bumps in the numbers across the next few months mean that CPI figures can have a somewhat reduced impact on the euro. October numbers for Spain and Germany are published today, and the eurozone flash estimate tomorrow. Core Spanish inflation is seen inching lower to 2.3%, while German headline numbers are widely expected to rebound from September's 1.6%.

EUR/USD briefly explored levels below 1.080 yesterday but then got a lift from soft US job openings. Barring a material surprise on growth/inflation today and tomorrow, markets will likely remain reluctant to price out ECB easing given the latest dovish communication, and a still wide USD:EUR short-term swap rate gap will stay consistent with EUR/USD around 1.07.

Francesco Pesole

➡ GBP: Reeves may trade carefully in first budget

The highlight of today's session is the new Labour government's first budget released at 1330CET. Does sterling rally on pro-growth fiscal loosening and a rise in real yields? Or is sterling flat on a carefully crafted series of tax hikes and spending increases which balance day-to-day spending? Or does Labour over-reach with some spending plans – reflected in higher-than-expected Gilt

supply – which re-inserts some fiscal risk premium into the pound?

Discussing it with team members we think that a flat sterling outcome is a little more likely in that Chancellor Rachel Reeves will tread carefully. The negative risk will probably be judged against the key metric of the UK's Gilt supply remit for FY24/25 and FY25/26. Current numbers are around £276/277bn. The consensus seems to be that a modest increase to this supply – in the region of £10-20bn per year – would be digestible for the Gilt market. Any number above £300bn is therefore probably a Gilt and sterling negative.

EUR/GBP is currently pressing 0.8300, largely because of a dovish re-appraisal of upcoming ECB policy. As above, we do not see a strong reason for EUR/GBP to bounce today. And below, 0.8300, the next immediate target is 0.8250/80.

Chris Turner

📉 CEE: Hungary returns to technical recession

Today we will see the first hard data in the CEE region this week. Third quarter GDP numbers for Hungary will be released this morning with our expectations of a further deterioration from 1.5% to 0.1% YoY, below market expectations, which would imply returning the economy to technical recession. Later today we will also see numbers from the Czech Republic. Our economists expect some improvement from 0.6% to 1.6% YoY, slightly above market expectations. However, the flash print doesn't provide much detail and we've seen a lot of revisions recently, clouding the picture of the economy.

The Polish government yesterday unveiled an increase in the state budget deficit for this year by PLN56bn from PLN184bn to PLN240bn, equivalent to roughly 2.3x the monthly gross supply of POLGBs, more than the media previously mentioned. The news came after the close of trading and we will see the reaction later today. At the same time, yesterday's bond auction indicated low market demand before the budget revision announcement.

In Hungary, the rates market showed signs of stabilisation after four weeks of selling off. The market has priced out all rate cuts and there is only one 25bp rate cut left in the second half of next year priced in, otherwise the whole FRA and IRS curve is flat. This is more a result of the previous move than changes in the external environment. So although we may see some signs of a reversal of the move and curve lower, core rates and EUR/HUF above 405 say otherwise, and confirm our view that we will not see any changes here at least until the US election.

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