

## FX Daily: Sticky rates, sticky dollar

The most relevant consequence of yesterday's higher-than-expected US CPI - and subsequent Fed officials' comments - is that Fed pricing is looking even less likely to go anywhere at this point. That leaves external developments (Middle East tensions, China stimulus) as the main drivers of the dollar, and risks remain skewed to the upside



### 📈 USD: Looking outside of the US

The latest batch of US data has sent [contrasting signals](#) to the Federal Reserve and to the markets. CPI inflation was hotter than expected and the core rate re-accelerated from 3.2% to 3.3% year-on-year on the back of a second consecutive 0.3% month-on-month print. In other circumstances, we would have seen a dollar rally, but there are at least two sets of factors that have capped the FX reaction.

Markets and the Fed are laser-focused on the jobs market, and CPI prints have a smaller impact. The surprise rise in jobless claims might be due to extreme weather events but had a noticeable negative impact on the dollar

The room for further dovish repricing is limited. Markets are pricing in 45bp of easing by year-end, so slightly less than two 25bp reductions. Three FOMC members (John Williams, Austan Goolsbee, Tom Barkin) have largely shrugged off the hotter CPI print, with only the hawk, Raphael Bostic, open to a pause in easing.

We made a case earlier this week for the link between rates/data and the dollar to soften into the

US election. Yesterday's moves seem to endorse such dynamics, and with market pricing for the Fed now likely to prove sticky on both sides, we'll be monitoring more closely the external environment rather than US data like today's PPI.

Oil volatility remains central. Crude prices are facing some large daily swings while awaiting Israel's retaliation against Iran, which could lead to disruptions in supply. Israel's defence minister said the nation's next move will be "above all surprising", and Iran has already pledged to strike back should it be attacked, which is probably contributing to the uncertainty and the general sense it will take some time for tensions to de-escalate. We suspect this will continue to offer support to the dollar in the near term.

Another non-US development to follow is tomorrow's announcement of new stimulus measures in China. The consensus for the size of the package is around 2tn yuan, but the market reaction will probably depend more on the targets of extra spending, with any boosts to consumption probably being favoured. Even in the case of a positive reaction, we are not sure markets are ready to take USD/CNY below 7.0 before the US election. Ultimately, the negative impact on the dollar may be contained. A strengthening into 103.50 in DXY remains possible in the near term.

*Francesco Pesole*

## 📉 EUR: Awaiting some help from Beijing

EUR/USD has stabilised in the 1.09-1.10 range, but continues to face downside risks as a USD:EUR two-year swap rate gap at 130bp is consistent with sub-1.09 levels, and Middle East tensions can easily add to the negatives for the pro-cyclical, oil-sensitive EUR. Weekend developments in China will likely be important for EUR/USD's tactical picture given the euro tends to have a good response to positive China developments. Good news from Beijing can help build a floor at 1.090 early next week.

The eurozone calendar is not offering many market inputs for the time being, and the ECB is in a quiet period ahead of next week's meeting. The [latest ECB minutes](#) did not give many insights about the October meeting, especially in light of recent inflation data surprises. While arguments against a rate cut shouldn't be entirely dismissed, it would now take quite a lot of courage from the ECB to hold, given markets and the consensus are fully aligned for a 25bp reduction.

Elsewhere in Europe, the UK released some slightly softer-than-expected growth figures for August, with 3M/3M GDP having slowed to 0.2%. Industrial production for the same month came in quite soft, at -1.6% YoY. This is all second-tier data for the Bank of England and sterling has barely budged, but they might be contributing to the recent narrative that a dovish repricing in the Sonia curve is overdue. Still, some encouraging news on services CPI next week is needed to take EUR/GBP sustainably back above 0.84.

*Francesco Pesole*

## 📈 CAD: Jobs data can help hawkish repricing

Canada releases jobs figures for September today, and the consensus is centred around a solid 27k employment print, with unemployment inching up from 6.6% to 6.7%. If the numbers prove to be close to consensus, we doubt the Bank of Canada will be rushed into a 50bp cut later this month. Markets are pricing in 48bp for 23 October meeting and 70bp in total by year-end, which looks a bit

overblown on the dovish side, in our view.

Accordingly, we see some room for hawkish repricing to offer help to the Canadian dollar, which has remained under pressure against USD despite higher oil prices. We had previously identified room for CAD's outperformance against other commodity currencies and could see another leg lower in AUD/CAD and NZD/CAD today before the expected Chinese stimulus story over the weekend gives some help to the antipodeans.

*Francesco Pesole*

## ➔ CEE: Central banks in hawkish mode

Yesterday's inflation figures in the region brought surprises in both directions. In Hungary, inflation [surprised slightly down](#) with a drop from 3.1% to 3.0% YoY. On the other hand, in the Czech Republic, it [surprised on the upside](#) with a rise from 2.2% to 2.6% YoY. In both countries, this is in line with the trend of surprises in recent months and our indications of risk. However, central banks are now in hawkish mode in CEE and while in Hungary this will not be a reason for a rate cut in October, in the Czech Republic it increases the probability of a pause in the cutting cycle.

This morning we got inflation numbers for September in Romania as well. Inflation fell from 5.10% to 4.62%, slightly below the 4.70% consensus. At the last meeting in October, the central bank left rates unchanged after two cuts earlier. Our economists don't expect a rate cut at the meeting in November, but weaker inflation numbers leave this topic open.

Although the first half of the week suggested stabilisation and finding ground underfoot, yesterday shows that the situation is not simple. As we have discussed here before, global risks have not changed much and CEE FX remains fragile. With higher inflation numbers in the Czech Republic, we see a chance for hawkish comments from the Czech National Bank that could support the koruna in the current uncertain environment. On the other hand, the National Bank of Hungary has already commented on the current situation, essentially ruling out a rate cut in October. However, EUR/HUF is back above 400 and not far from 402. Thus, the koruna and zloty seem to be more defensive in these conditions, while the forint, as usual, remains more sensitive to global exposure.

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