

FX Daily: The dollar is due a correction

A December Fed cut is back as a baseline scenario for markets, but the dollar has remained relatively strong. Our short-term valuation metrics point to significant risks of a USD correction, unless data prompts a hawkish repricing. Geopolitics will remain in focus, both for European FX (Ukraine peace talks) and the yen (Japan-China tensions over Taiwan)



⬇️ USD: Too strong relative to rates

Geopolitical news should remain central today. The US has softened its stance on Thursday's deadline for Ukraine to accept the peace deal with Russia, and a new 19-point deal is set to be discussed in the coming days. German Chancellor Merz seemed to play down the chances of a breakthrough already this week, while the Kremlin has shown a cautiously optimistic tone.

The currency market's reaction to Ukraine peace prospects has so far been small, with neither a break higher in high-beta European FX nor any serious pressure on the Swiss franc, the preferred safe haven for European risk.

The standout in G10 remains the yen, which continues to face speculative testing of Japanese authorities' tolerance. Reports that the Trump-Xi call included a discussion on Taiwan yesterday isn't helping JPY either. The diplomatic rift between Japan and China concerning Taiwan persists,

and markets are adding some risk premium on the yen based on the potential economic fallout of Beijing's retaliatory measures. Thinner liquidity around Thanksgiving could present good conditions for the BoJ to intervene in USD/JPY, ideally after a market-driven correction in the pair.

US data might potentially offer the trigger for that correction, but not today in our view. Retail sales should be quite robust, and we expect a moderate drop in consumer confidence to 93.5, close to consensus. We also see September PPI in line with expectations at 0.3% MoM.

We don't expect major implications for rate expectations, which are currently being driven by some dovish Fed speak. Alongside Chris Waller, we heard Mary Daly supporting a cut in December. She isn't a voter this year, but her stance still represents some dovish pressure on the FOMC in what is shaping up as a close decision. Markets are back to pricing in 19bp of easing for December, but the dollar has remained resilient. Some year-end rebalancing flows before Thanksgiving may be getting in the way, but unless markets have a hawkish rethink, the dollar looks too strong relative to short-term rate differentials at these levels, and we see some material downside risks.

Francesco Pesole

📈 EUR: Not touched by Ukraine news so far

The EUR is yet to see any real benefit from the Ukraine peace talks, and is trading at a wide 2% undervaluation vs USD as of this morning, according to our model. That is not specific to the euro, as the dollar's overvaluation is similar, if not higher, across G10.

On the data side, we had a look at the German Ifo yesterday. The takeaways weren't very positive, as German business sentiment deteriorated in November. Expectations weakened despite a slight improvement in current conditions, reflecting fading optimism after earlier fiscal stimulus hopes. Underspending in the 2025 budget suggests stimulus may only kick in next year, which offers some hope for 2026.

EUR/CHF may prove to be a more preferred way to play Ukraine peace hopes, but EUR/USD undervaluation cannot be dismissed, and a return above 1.160 in the near term remains our baseline.

Francesco Pesole

➡ GBP: Nervousness builds ahead of the Budget

EUR/GBP one-week implied volatility is trading 3 vols above realised, which is the highest relative gap since the 2022 Mini Budget. This signals that despite some recovery in back-end gilts, the currency market remains concerned ahead of tomorrow's UK Budget announcement.

The pair may hold around 0.880 for today amid a wait-and-see approach. That is, unless some Budget anticipations appear in the media and move the market (a non-negligible risk).

[Here](#) is our latest note on the Budget – after the government's income tax U-turn. We had previously published a [scenario analysis for FX and rates](#).

Francesco Pesole

NZD: Last cut by RBNZ

As discussed in our [RBNZ preview](#), we expect a 25bp rate cut tonight in New Zealand (announcement at 0300 AM CET). That would take rates to 2.25%, which we believe is the terminal rate, as disinflation may prove slower than previously expected and growth more resilient.

The statement should not entirely close the door to more easing, but we think the new rate projections will signal no more cuts. That would be enough of a hawkish message to trim some of the lingering expectations for more easing in 2026 (42bp priced in by May) and lift NZD.

We remain bullish on NZD/USD and expect a return above 0.570 by year-end.

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