

FX Daily: The name Lighthizer sends tremors through FX

Rest of World currencies took a leg lower on Friday after reports suggested that Robert Lighthizer will likely head the next Trump administration's trade policy. His name shouldn't have come as a surprise but serves as a reminder that US protectionism is on its way. Today's US holiday will keep markets quiet. We see no reason for the dollar to hand back gains



Robert Lighthizer,
former US trade
representative

➔ USD: No reason for dollar to hand back gains

A quick take on global FX markets this Monday morning sees the dollar largely holding onto gains made on the back of the likely Republican clean sweep, while China's fiscal stimulus has so far failed to move the needle on recovery prospects elsewhere in the world. Friday also saw the dollar move a little stronger late in Europe after the Financial Times reported that Donald Trump is again lining up Robert Lighthizer to run his trade policy. Lighthizer would reprise his former role of US Trade Representative and would be in charge of trade investigations and recommended tariffs. He's an arch hawk on trade – although it should be no surprise for the market that he has been picked.

One of the big questions now, however, will be the timing of Trump's trade agenda. We have assumed late 2025/early 2026 for the introduction and ratcheting up of tariffs, since it takes time to conduct trade investigations. Some reports suggest tariffs could come earlier and could piggyback off of the results of existing trade findings. On the subject of Lighthizer, he apparently encouraged Trump to intervene and sell the dollar to support US manufacturers during the last Trump administration. No doubt such speculation will occasionally emerge during Trump's next term – especially if the dollar strengthens a lot. But Trump's policy set is a positive one for the dollar and the former president rejected calls for intervention when last in office.

The thesis for dollar bears now is that it will take a while for tariffs to come through and the Federal Reserve's recalibration to less restrictive monetary policy – plus end-year dollar seasonal patterns – could see a benign decline in the dollar into year-end. We disagree and think this clean election result can boost US consumer and business sentiment at the same time as it weighs on business sentiment elsewhere in the world. Remember one of the big negative impacts of tariffs is its uncertainty weighing on business investment. We see the dollar strengthening into year-end.

After today's Veterans Day Holiday, the US focus this week will be on whether the Republicans win the House and what should be sticky US core CPI and a firm October retail sales reports, all of which look dollar positive. We could see some more DXY consolidation in this 104.50-105.50 range but would expect an upside breakout at some stage.

Chris Turner

📌 EUR: Focus on German elections and ECB

EUR/USD remains relatively soft near 1.07. In the background is the focus on German federal elections, with the latest reports suggesting a no-confidence vote could be held in December and a snap election as early as February. It seems a leap of faith at this stage to expect a complete turnaround in the German fiscal position and instead the onus will be on the European Central Bank to support the eurozone economy. Our team favours a 50bp ECB rate cut in December compared to the current 28bp priced.

Two-year EUR:USD swap rate differentials remain exceptionally wide at 170bp in the dollar's favour and make the case that it will only be position-adjustment that generates any EUR/USD strength this week. We struggle to see that dominating, and instead see EUR/USD unable to hold gains over 1.0750 before breaking below 1.0670/80 to 1.0600.

Chris Turner

➡ GBP: Data and speeches in focus

Sterling is doing quite well as the market continues to only price in a very modest easing cycle and the UK, by nature of its trade deficit with the US, may not be front and centre in the looming trade war.

Away from US politics, the focus in the UK this week will be data and Bank of England speeches. Wage and employment data is in focus tomorrow, while BoE Governor Andrew Bailey makes an important Mansion House speech Thursday evening. Given that the UK economy has been performing quite well and Donald Trump's policies could prove inflationary, Bailey may not want to repeat his narrative that UK rates could be cut faster than expected. But let's see.

EUR/GBP is starting to look comfortable below 0.8300. If our eurozone team are correct with their ECB call, then 0.8200 is very possible for EUR/GBP before year-end.

Chris Turner

📌 CEE: Switch back to inflation numbers

From central bank policy last week, we switch to inflation and GDP data in the CEE region this week. Today, we start with Czech October inflation, where our economists expect a further rise from 2.6% to 2.9% year-on-year, slightly above market and Czech National Bank expectations. And core inflation should also be higher from 2.3% to 2.6%. Tomorrow will also see the release of inflation in Romania, where we expect a decline from 4.6% to 4.4% YoY and in Hungary from 3.0% to 3.6%, both in line with the market.

Current account numbers for September in Poland, Czech Republic and Romania will be published on Wednesday. On Thursday, we will see third quarter GDP numbers in Poland and Romania. Poland should see the YoY pace slow from 3.2% to 2.5%, while Romania sees an acceleration from 0.9% to 1.7% YoY. On Friday, we'll see final inflation numbers in Poland confirming a rise to 5.0% in October and the CNB will release minutes from last week's meeting, which could tell us more about the likelihood of a pause in December.

As FX finds its place in the new post-election environment, we retain a bearish bias for the CEE region. We view Thursday's market correction and rally as a post-election positioning adjustment but believe CEE cannot escape the negative global outlook. [Lower EUR/USD](#) will be the main driver of weakness for CEE FX, but we should also see more negative news from the economy.

Rates are still too high across the board despite the rally in recent days and the market has room to price in more rate cuts due to weaker data and a possible dovish ECB move. CEE shorts in USD-crosses seem to be the main direction in the region for now, while EUR-crosses are finding their way. Still, PLN should have some chance to outperform in the region in the medium term due to economic differences and the stage in the cutting cycle. But for now, we believe the market is more focused on the regional angle.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

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