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FX

FX Daily: UK inflation puts December rate cut back on the table

The dollar has remained bid as US credit market concerns continue to ease, and the large drop in precious metals potentially offers extra support. More USD gains from here should be harder to sustain though. Meanwhile, a cooler-than-expected CPI report in the UK is increasing downside risks for the pound as the BoE is now more likely to cut by year-end



The increase in bank reserves can be attributed to a strong pickup in the BoE's liquidity facilities

➔ **USD: Further strength not so simple to sustain**

The dollar has continued to strengthen this week, as US credit market concerns appear to have now entirely left the FX market. The very large gold correction yesterday potentially added some support to the greenback.

We discussed in [yesterday's FX Daily](#) how the dollar could have extended gains up to current levels on the back of US sentiment stabilisation, but a further USD rally from here will be harder to justify unless markets find reasons to price out one of the three Fed cuts expected by March. The most realistic driver of such hawkish repricing this week would be a hot CPI figure on Friday, which we don't expect.

One factor potentially reigniting USD fragility could come from US-China tensions, after Trump said yesterday that his meeting with China's President Xi next week may not happen. For now, this is being seen as simple brinkmanship, but China has struck a sourer tone around these negotiations, and markets may be erring on the side of complacency. No meeting doesn't equal higher tariffs, but it should be enough to weigh on risk sentiment and the dollar.

Francesco Pesole

➔ **EUR: Mixed signals on Ukraine**

EUR/USD is testing the 1.160 support, but as discussed above, we aren't very confident the dollar can rally much further from here without data inputs.

Meanwhile, the Trump-Putin meeting in Budapest has been called off for now, just as European countries are reportedly working with Ukraine on a 12-point peace plan. These developments vindicate markets' extremely cautious treatment of Ukraine truce hopes. We remain of the view that any meaningful market reaction will require tangible progress – rather than mere speculation.

Today, ECB President Lagarde speaks at an event, but may not touch on monetary policy. Anyway, there's little chance of deviation from the well-established neutral communication.

Francesco Pesole

➔ **GBP: Dovish inflation print**

The September UK inflation reading released this morning is sending a dovish signal to the Bank of England and weighing on the pound. Headline inflation remained unchanged at 3.8% (consensus 4.0%), while core slowed down from 4.6% to 3.5% and services CPI stabilised at 4.75% versus expectations of 4.8% and 0.3pp below the BoE's latest forecast. Our UK economist notes that the main dovish surprise comes from food prices – a big concern for the BoE of late – which actually fell on the month and are now 0.5pp below the BoE's August forecasts.

Our call is that this 3.8% marks the peak for headline inflation, and we expect it to be 3.5% for the remaining three months of the year, before falling back from January.

All this should not be enough to bring a November rate cut back on the table, but it definitely increases the chances of a December move. For that, the [Autumn Budget](#) will play a pivotal role, where a stricter commitment to fiscal rigour can be the trigger for a 'Christmas cut'.

Markets are pricing in 10bp of easing for December, which leaves ample room for potential dovish repricing hitting the pound in the coming weeks – even if our official call still narrowly favours February for the next cut. Our call remains for EUR/GBP strength into year-end, with a

0.88 target.

Francesco Pesole

➔ HUF: The shine is fading

The National Bank of Hungary, as [expected](#), left rates at 6.50%. Forward guidance remained hawkish and changed only in details. The central bank added FX stability to its stance as one of the ways to achieve lower inflation, probably as some pressure against the government's communication in recent weeks. Our view here remains the same – rates unchanged until the end of the first half of the year. Of course, there are some dovish risks, such as lower inflation in the first quarter or rate cuts by other central banks. However, we expect the NBH to look past these.

Rates and FX remained largely unchanged yesterday, underscoring the central bank's predictability at this stage and reflecting minimal progress. At the same time, we saw some downplaying of a possible meeting between Trump and Putin in Budapest. This reduces the chances of a ceasefire between Ukraine and Russia and the attractiveness of the HUF, which, in our opinion, would benefit the most within the CEE region. Current EUR/HUF levels around 389-390 seem fair at the moment, and we will have to wait for a new impulse here.

Chris Turner

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

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