

## FX Daily: Ukraine truce hopes regain centrality

US President Donald Trump appears to be advancing efforts to broker a Russia-Ukraine truce. Markets are pricing in cautious optimism: oil, dollar, and the Swiss franc all came under pressure. CHF remains vulnerable amid the collapse of US-Switzerland trade talks. The Bank of England is widely expected to cut rates today, but don't expect any dovish shift



The euro seems to be benefiting from Trump's efforts to broker a truce in Ukraine

### ➔ USD: Things moving fast on tariffs, geopolitics and Fed

Developments this week are unfolding rapidly across three key areas: tariffs, geopolitics, and the Federal Reserve. The first two are somewhat interconnected when it comes to India, which has faced a tariff hike to 50% in response to its economic ties with Russia. Yesterday's [rate hold from the Reserve Bank of India](#) seems to go in the direction of currency stability – and perhaps in the hope of a trade de-escalation. The 88.0 level in USD/INR appears to be the key line of defence; should the RBI allow it to pass that level, the rally could accelerate in the near-term. Things aren't looking much better for Switzerland on trade, as we discuss in the EUR section below, and the franc is back to being pressured.

What is also encouraging a rotation away from the franc is the more tangible possibility of a Russia-Ukraine truce. Trump is reportedly arranging meetings with both Russian President Vladimir Putin and Ukrainian President Volodymyr Zelensky as early as next week, and said there has been “great progress” on talks with Russia. With respect to the Ukraine war, the dollar still retains its role as a geopolitical risk hedge, especially due to the link with energy prices. Both crude and the dollar came under pressure yesterday.

Finally, the Fed succession saga. A media report suggested Trump is being advised to replace resigning FOMC member Adriana Kugler with an interim official until January and wait until then to announce his Fed Chair pick. We should get a decision soon, as Kugler's resignation comes into effect tomorrow. As discussed in yesterday's [FX Daily](#), we think the nomination of Kevin Hassett, who is considered the frontrunner, is a negative event for the dollar due to his dovish views and greater perceived exposure to Trump's influence compared to the other main candidate, Kevin Warsh.

The dollar weakened yesterday, influenced by optimism around a Ukraine-Russia truce and the alignment with lower front-end swap rates. Three Fed officials (Mary Daly, Lisa Cook and Neel Kashkari) raised concerns over the jobs market deterioration. Cook specifically characterised the July payroll revisions as “typical of turning points”, and Daly said risks are skewed to more than two cuts this year. We'll hear from Atlanta Fed President Raphael Bostic today (neutral, non-voter), but the mood seems to be shifting in off-meeting FOMC communication – seemingly as a prelude to a more official dovish turn at Jackson Hole (21-23 August), unless inflation data shocks next week. Our new Fed call is three cuts by year-end, [as discussed here](#).

We expect some stabilisation in the dollar after yesterday's correction and amid a rather light US data calendar. Still, our USD short-term bias remains bearish.

*Francesco Pesole*

## EUR: Ukraine truce hopes helping euro

Trump's optimism on a Ukraine-Russia truce is likely feeding into euro strength, which stands in complete opposition to the dollar on the matter. Should a truce become a more tangible prospect, EUR/USD and EUR/CHF are expected to serve as the primary channels for euro appreciation.

As noted above, the franc continues to suffer from deteriorating US-Switzerland trade relations. The Swiss President returned from a Washington visit yesterday without securing improved trade terms, reducing the likelihood of an imminent deal. Nevertheless, Swiss National Bank pricing remains anchored, with less than a 50% implied probability of an additional rate cut following the unexpected tariff-driven rebound in July. The trigger for a dovish rethink – and another CHF selloff – might be the additional burden of larger-than-expected [US pharma tariffs](#), which are currently excluded from the 39% rate applied to Switzerland but expected to be announced next week.

On EUR/USD, our call for today is neutral, but the balance of risks remains tilted to the upside, even beyond 1.170.

*Francesco Pesole*



## GBP: Widely expected cut today

The Bank of England is widely expected to continue its recent pattern of quarterly cuts and reduce the Bank rate by 25 basis points to 4.0% today. [Here is our full guide](#) to today's meeting.

The reaction in sterling will be primarily driven by the vote split; expect dissenters on both sides. At least one member (Catherine Mann) should vote for a hold, and might be joined by two more (Huw Pill and Megan Greene), although this is not our base case. Arch-dove Swati Dhingra should vote for 50bp, with some risks of fellow dove Alan Taylor joining her. However, we wouldn't read too much into the vote split, which has little predictive power for future decisions. Policy guidance should incidentally remain untouched, still signalling "gradual" and "careful" easing ahead.

Markets are pricing in the next cut in either November or December. While the risks appear tilted on the dovish side, there isn't enough evidence that the jobs market deterioration is happening at an alarming pace, nor that services inflation is easing. We don't think the BoE will offer reasons to heavily revise expectations on the dovish side today.

EUR/GBP may stabilise around 0.87 in the near term, while incoming fiscal decisions by the UK government in August continue to limit the likelihood of significant corrections. We have a more positive view on the pound against the dollar, and the potential pricing out of geopolitical risk in Europe bodes well for Cable, which can find its way back to 1.35 into the fourth quarter.

*Francesco Pesole*

## CZK: CNB ends cutting cycle despite global story

Today's [Czech National Bank meeting](#) should show another checkpoint in our Czech hawkish story. The CNB has already telegraphed that a rate change is not on the table, and we will see a 3.50% confirmation. More interesting should be the forward guidance, and the market will be watching how hawkish the press conference and new forecast are.

On the data side, it looks like both the economy and inflation should see some upside revision, which should also be visible in the rate forecast. At the same time, FX is stronger and is pretty much the only anti-inflationary factor compared to the previous May forecast. The summer forecast usually brings an expansion of the horizon; we will also see the 2027 numbers for the first time. Overall, though, the main focus will be on the Governor's wording – and whether he repeats Deputy Governor Eva Zamrazilová's hawkish comments from an interview last week that the cutting cycle is essentially over.

The market has quickly adapted to the hawkish rhetoric of the central bank and, along with the likely positioning squeeze of previous receivers, has climbed significantly higher, especially in front of the IRS curve. The 1Y1Y forward has therefore been above a fixing for some time, confirming the market's hawkish stance.

Some parts of the curve still see some remnants of rate cut pricing, while Friday's US labour market data brought some calm to CEE rates, including the CZK market. The CNB, in turn, still has room to boost hawkishness (if it wants to) and to push a stronger CZK. As we discussed earlier, further FX gains here should be slower than before. Still, we remain bullish given the CNB hawkish story, which is unique within the CEE region but also globally. If the central bank meets our hawkish expectations, we could probably test the 24.500 EUR/CZK levels.

Frantisek Taborsky

## ➔ CLP: Another FX reserve build programme

Chile's central bank yesterday announced a new FX reserve buying programme worth \$25m per day. This is expected to continue for three years and increase FX reserves by \$18bn. The reason for the programme is a reshuffling of Chile's liquidity buffers. In particular, it seems this reserve buying programme aims to allow Chile to drop the need for its IMF Flexible Credit line, worth around \$14bn and due to expire in August 2026.

The move appears well-timed from the central bank in that Chile's refined copper exports have recently been exempted from the 50% US copper tariffs, and the dollar looks to stay broadly offered now that the Fed looks ready to restart its easing cycle. We would say, however, market conditions have blown two prior FX reserve buying programmes off course, and the programme could add pressure to the peso should external conditions turn less benign.

The announcement probably means that USD/CLP is more likely to stay nearer to the middle of a 900-1000 medium-term trading range. But its low carry and now this FX reserve build programme suggest the peso will underperform the rest of the Latam FX complex.

Chris Turner

### Author

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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