

FX Daily: USD rally isn't a blip, but will struggle to accelerate

Markets are quite clearly rethinking popular short-USD trades, but further gains may prove harder to sustain unless markets start to price out Fed easing. With the US CPI report reportedly being published next week, we actually see a good chance an October cut will be greenlighted. Today, keep an eye on more French news and Canada's jobs numbers



The US government shutdown might be doing the dollar a favour by not adding any negative US data

📉 USD: Re-enjoying safe-haven vibes

It's becoming increasingly clear that this week's dollar rally – which was initially spurred by events in Japan and France – is turning into a broader rethink of the consensus short-dollar trade of the past few months. Another important factor to consider is the full re-establishment of the dollar's safe-haven value. That is surely aided by the fact that the other haven contenders, EUR, JPY and CHF, have domestic struggles of their own: gold's outstanding rally tells us that the dollar still isn't the number one choice. But, as discussed in recent notes, the US shutdown might be doing the dollar a favour by not adding any negative US data.

Yet, the move in the dollar still appears overdone to us, and any further gains may be harder to

sustain. The yen's good performance relative to all other G10 currencies except the dollar means that the rotation from USD-funded to JPY-funded carry trades isn't happening on a huge scale just yet. And yesterday's were quite simply typical risk-off moves.

On the shutdown, there are still no signs of breaking the bipartisan impasse, but it's been reported that the Bureau of Labour Statistics is recalling staff to prepare the September CPI report, which is due on Wednesday. Expectations are cementing around a 0.3% MoM core CPI print, which should greenlight a cut on 29 October.

The dollar can consolidate some gains today, but remains at risk of corrections in our view, and another rally would start to bring the greenback dangerously far from what short-term rate differentials justify.

Elsewhere in North America, keep an eye on jobs data out of Canada today. Expectations are that the unemployment rate continues to inch higher – to 7.2% – and that should endorse another rate cut by year-end. While 25bp is fully priced in for the December meeting, October is currently being treated as a 50-50 affair (11bp priced in). Any poor readings today could fuel speculation of an October cut and weigh on CAD. The loonie has done well this week thanks to its tighter correlation with the USD, but remains in a fragile spot unless the re-appeasement attempts between Canada and the US seen in the past few days morph into something more concrete soon.

Francesco Pesole

EUR: New French PM to be announced today

The only tepid and very short-lived EUR relief to Wednesday's French political news is understandable. Despite the OAT-Bund 10Y spread falling back to the low 80s (bp), the more forward-looking FX market is seeing limited room for optimism.

As a new prime minister is set to be announced today, there is a general feeling that the political backing remains weak. The market-appeasing pledge by outgoing PM Lecornu about delivering on budget obligations is hardly enough to price out French risk.

That said, we still struggle to see material implications beyond the short-term for the euro, which can anyway benefit mildly from today's new PM announcement. If US jobs data – whenever released – leans more toward weakness than strength, and next week's CPI figures support the case for a Fed rate cut in October, then French political risk would need to escalate into broader contagion across European bonds to sustain downward pressure on EUR/USD. We don't see the conditions for this happening at the moment. As complicated as the budget situation in France is, markets' vigilance generally makes parties trade more carefully on fiscal themes, with the post-Truss UK and previously Italy being two cases in point.

Should EUR/USD take another hit, we would expect decent buying in the dips close to 1.150, a level that would represent over 2% short-term model unless accompanied by widening of front-end spreads in favour of the USD. A return to 1.170, albeit not in a smooth, unidirectional fashion, remains our preference.

Francesco Pesole

📈 NOK: Inflation picture slightly more benign

The softening in risk sentiment keeps the Norwegian krone in a vulnerable spot today, especially given the additional pressure from recent crude price underperformance.

Domestically, Norwegian inflation data for September – released this morning – didn't deviate enough from consensus to justify any major repricing in the curve. Headline inflation was slightly stronger at 3.6%, but core inched lower from 3.1% to 3.0%. The latter is generally more relevant for Norges Bank, and we still think it will moderate enough to justify the next cut in 1Q25, despite markets pricing in a mere 10bp.

We think the external environment can weigh on the short-term outlook for NOK, but with the euro facing domestic challenges, we don't expect significant upside volatility in EUR/NOK at this stage. Our call for year-end is still modestly bearish on the pair – 11.50.

Francesco Pesole

➔ CEE: CNB hawkish story showing some cracks

Today, we will see the final GDP figures for Romania for Q2 2025 and the final September inflation figures for the Czech Republic. The flash print of inflation showed a surprising decline from 2.5% to 2.3% YoY, the lowest since April. However, it seems that the main surprise was food prices, while service prices remained unchanged at 4.7%. Today's breakdown should give us more details, and the CNB will publish core inflation later. The question is whether it remained unchanged at 2.8% compared to August or fell by one-tenth. However, overall, the CNB's hawkish story is showing some cracks this week, along with surprisingly weak industrial production data. Still, we do not believe that the CNB will return to the discussion of rate cuts, but rather that recent developments show that the period of unchanged rates will be longer.

Yesterday's press conference by [the National Bank of Poland](#) showed that the window for rate cuts is still open and that a rate cut in October does not rule out another cut in November. At the same time, the governor spoke of a terminal rate somewhere between 3.75-4.25% and a likely path to 4.00% and a further assessment of the situation later. This added some hawkish detail to an overall dovish press conference, with markets pricing in a 3.75% terminal rate at this point.

However, PLN and other currencies in the CEE region saw only a small move yesterday in EUR crosses. EUR/PLN appears to be firmly anchored in the 4.245-275 range. However, yesterday's slight decline in PLN rates, together with higher core rates, points to EUR/PLN moving back towards the upper end of this range. EUR/CZK, on the other hand, remains anchored at 24.350, as we discussed earlier, while the HUF saw some recovery after a rapid sell-off. We saw more movement in USD crosses, where CEE came under pressure along with other currencies, and we could potentially see the pass-through of lower EUR/USD into EUR crosses if the trend of a stronger USD does not reverse soon.

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