

FX Daily: Waiting for a peace deal breakthrough

Volatility should remain capped due to tight US volumes today. The main driver into next week is a potential build-up in expectations of a breakthrough in the Russia-Ukraine peace negotiations, which should weigh on the dollar and asymmetrically favour high-beta European currencies



➔ USD: Staying on tight ranges

Dollar crosses have traded in tight ranges as the Thanksgiving holiday dried up flows. Volatility shouldn't pick up materially today, even though the dollar remains vulnerable to a convergence lower towards short-term swap rates.

Our short-term fair value model continues to display some short-term dollar overvaluation against most of the G10, and risks remain skewed towards a return to the 99.0 50-day moving average in DXY.

Geopolitical news remains closely monitored, even though the impact on FX has been contained so far. President Putin said yesterday that the draft discussed in Geneva could form the basis of a future deal with Ukraine, and US peace envoy Steve Witkoff is confirmed to visit Moscow next

week. We could see some build-up in expectations of a breakthrough in negotiations ahead of that Witkoff trip.

While there is considerable caution in markets about the prospects of a peace deal, any material progress from here should weigh on the dollar and support high-beta European currencies.

Francesco Pesole

➔ EUR: Inflation numbers shouldn't be a game changers

France, Spain, Italy and Germany publish their flash CPI estimates for November today. We doubt the inflation picture is set to change dramatically in the near term, and our call on the ECB remains unchanged and in line with pricing: no changes for the whole of 2026.

However, yesterday's ECB minutes **confirmed** that any shift would – if anything – be on the dovish side. Evidence of persistent inflation undershooting in the forecasting horizon could prompt a more vocal reaction by the ECB doves, and put another cut back on the table.

Our call remains bullish on EUR/USD into year-end, but until some US data is published, or the Fed delivers a cut in December, it's mostly up to positive developments on the Ukraine peace deal that can drive the euro sustainably higher.

Francesco Pesole

⬇️ CEE: Market watches Hungary's rating reviews after fiscal target revision

In Hungary, PPI figures will be published, which will show month-on-month declines this year, dragging down the year-on-year figures. More interesting will be the rating review after the end of trading today. Moody's has a negative outlook on Hungary's rating (Baa2) from November 2024. Moody's expects a 4.6% GDP deficit for this year and 5.1% for next year. Therefore, the government's recent revision to 5% in both cases does not change the picture much, and a downgrade is less likely, but the market will certainly watch this move. More interesting may be Fitch's rating review next week on Friday, where the outlook is still "Stable" and the agency forecasts a 4.5% and 4.0% deficit.

In the Czech Republic, detailed GDP figures for the third quarter will be published today. The earlier flash estimate, at 0.7% quarterly and 2.7% annually, surprised both the market and the CNB to the upside. The Statistical Office should confirm these figures and show household consumption and investment as the main drivers of growth. However, there is some risk of a downward revision in our opinion due to the weaker monthly figures.

Frantisek Taborsky

⬇️ PLN: The market is waiting for a signal that is pricing in too many rate cuts

November inflation should show a further decline in headline inflation from 2.8% to 2.5% in our forecast, one-tenth below market expectations. Core inflation should also fall slightly from 3.0% to 2.9% YoY. This should pave the way for another rate cut by the National Bank of Poland next week.

However, we believe that the market in the current conditions may be more sensitive to potential surprises than usual. The last two weeks have seen the market move rates down, outperforming CEE peers, triggering some stop-losses due to paid positioning in the PLN market. The market has thus quickly moved to price in a terminal rate of 3.50%, which is in line with our forecast but above market consensus.

If the inflation print surprises upwards, we could see new payers in rates as the view is that more rate cuts cannot be priced in and potentially higher inflation in the future. On the other hand, weaker inflation would simply confirm the current dovish trend. The market is therefore asymmetric, in our opinion, towards higher rates and potentially support for FX. Therefore, PLN has a good chance of further gains, especially if we see some progress in peace talks between Ukraine and Russia. The 4.230 levels are the bottom of the current range, but we have already seen testing lower levels in previous days and especially an upside surprise in inflation would be key to breaking lower.

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