

FX: The dust settles

A few surprises yesterday but things are settling down after two dovish hikes and now a new Fed Chair



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USD: Hurricane distorted jobs report

In line with expectations, Jerome Powell obtained the nomination for the next Fed Chair. As per [Jerome Powell - You're hired](#), our economists note he represents continuity which is like to foster the current gradualism in Fed's policy tightening. Hence our call for the December hike and two additional hikes next year remains unchanged. Though he is likely to be more lenient concerning regulations compared to Chair Yellen.

Given that market already priced 63bp of hikes by end-2018, this suggests limited upside potential to USD from the monetary policy channel. As per today's October US labour market report, our economists look for hurricane distorted numbers (mainly the wage growth, which is likely to decline from 0.5%MoM to 0.1% due to the likely exaggerated September reading on the back of distortions in the leisure sector – see [NFP Preview](#)). Yet, this should not affect the Fed and not derail the odds of the December rate hike.

EUR: Testing the EUR/USD 1.1700 level

EUR/USD is likely to test the 1.1700 level should the US October wage growth miss the market

expectations (our base case). In the CEE FX space, we see the yesterday's spike in EUR/CZK (based on the dovish tone of CNB press conference and the modest pace of projected rate hikes) as short-lived and see limited downside to CZK. This is because the state of the economy will require another hike in 1Q18 and an additional two in the rest of 2018, in turn, putting downside pressure on EUR/CZK - which should reach 25.00 next year.

GBP: Settling after the BoE prompted adjustment

As per the [Bank of England Review](#), the BoE surprised on the dovish side yesterday (despite the 25bp hike) given the downgrade to its forward rate guidance - dropping the wording that market expectations for future rate increases are too low. Given that the BoE rate outlook previously provided a fair degree of support to GBP, sterling's collapse yesterday should not come as a surprise. We now expect GBP to settle at the post-BoE outlook adjusted (softer) levels with the next near-term catalyst for a change in GBP direction being 2017 Autumn Budget (22 Nov)

CAD: Bank of Canada downside risks still in place

While we still think there is further room for CAD to move lower as markets fully price out the scope for a December Bank of Canada rate hike (currently a 41% probability is priced in).

USD/CAD looks set to consolidate in the 1.2720-1.2720 trading range. Soft Canadian jobs data today may be another catalyst for a dovish BoC repricing - a negative surprise could see us trade back towards the top of this range.