

## FX Daily: An unexpected perfect storm for the dollar

A sudden surge in scrutiny of US regional banks is hitting equities and the dollar, which, incidentally, faces the negative drag of a dovish Fed repricing, some hopes for a Ukraine truce, falling oil prices, and ongoing US-China trade tensions. It's hard to pick a bottom in the ongoing USD sell-off, which may well run a bit further from here



### 📌 USD: Multiple factors hitting the dollar at once

A sudden return of market scrutiny on US regional banks is adding a rather unexpected negative factor to the dollar. US equities took a hit yesterday, with the S&P500 regional banks sub-index plummeting 5% after two lenders (Zions and Western Alliance Bancorp) reported problems with loans associated with fraud. The contagion to other risk assets shows not only that markets are still sensitive to regional bank concerns (a legacy of SVB's 2023 collapse), but potentially to the broader credit market, which has been operating on exceptionally tight spreads over the past few months.

Unlike in 2023, the risks appear more isolated this time, but they could feed into a narrative that the US business environment and credit quality are in a poorer state than what data suggests, perhaps also due to AI distortions. Expect great scrutiny over upcoming regional bank earnings,

with any further spillover into US stocks set to extend the dollar sell-off.

Stock futures are now pointing to a 0.4-0.5% negative open for the S&P500 and -0.9% in Euro Stoxx, as the Nikkei and Hang Seng are trading at -1.5% and -1.9% as we write. So far, this doesn't show exceptional relative underperformance of US equities relative to other main markets, but the fact that the source of the sell-off is a US event is inevitably making the JPY, CHF and EUR the preferred safe-haven destinations.

What also isn't helping the greenback is the news that Trump will meet with Putin within the next couple of weeks to discuss the end of the war in Ukraine. Oil prices are down nearly 7% in the past 7 days.

Short-term rate differentials are also moving against the dollar, with markets now pricing 5bp over 50bp for Fed cuts by the end of the year. In such a volatile environment, it's hard to pick a bottom for USD. DXY might need to slip back all the way to 97.50 before finding strong support, unless some encouraging domestic US news comes to the rescue today.

*Francesco Pesole*

## 📈 EUR: Eyes on 1.180?

EUR/USD rose again yesterday, but primarily on the back of USD weakness, as markets had largely priced in that French PM Lecornu would survive the no-confidence motions. As discussed [here](#), Lecornu effectively traded political stability for more budgetary difficulties by freezing the pensions reform. This – aside from very few guarantees on the durability of this new government – is keeping the 10Y OAT-Bund spread above 75bp, some 10bp wider than mid-August.

That is, however, enough for the euro to price out a good portion of the French risk premium, and barring a new government collapse before year-end, this should allow EUR/USD to refocus on canonical market drivers (rates and equities).

As discussed above, the dollar remains in a fragile spot, and a break above 1.750 is surely possible, with 1.180 starting to look very realistic again. The upcoming meeting between Trump and Putin could also attract EUR-positive speculation on a Ukraine truce.

Our macro team has published a [preview of the Dutch election](#) (29 October). We don't currently see it as a major risk event for the euro: a fragmented parliament is the most likely outcome, and most parties are unwilling to form a government with Geert Wilders' Eurosceptic PVV party, which is leading in the polls.

*Francesco Pesole*

## ➡ SEK: The unusual winner

The Swedish krona is the second-best performer this week, rising even more than the euro as equities sold off yesterday. This sounds rather odd given SEK's usually high beta (especially relative to the euro) to risk assets.

But some hopes for peace in Ukraine ahead of a new Trump-Putin meeting and the sell-off in crude are definitely helping the krona. Incidentally, Swedish investors are generally highly exposed to US equities and this year we have seen large repatriation flows into Sweden whenever US-specific

events hit equities. That naturally implies large SEK buying.

We remain cautious on the upside ability for SEK beyond this, as souring sentiment in European equities can weigh on the krona today. But the medium-term outlook remains bullish for SEK, and its ability to withstand equity shocks like this one reinforces our view.

*Francesco Pesole*

## CEE: Good constellation for the region

Yesterday's PPI figures in the Czech Republic showed some **weakness** in industry pricing, while core inflation in Poland remained at 3.2% YoY in September, as expected. Today's calendar only features inflation expectations in Turkey for October and wages in Hungary for August. The latest inflation figures in Turkey surprised on the upside, which could be reflected in inflation expectations.

The EUR/USD rebound brought some positive support for CEE currencies, while the rates market stabilised somewhat, leaving room for further gains. At the same time, the market may again see a higher chance of an end to the conflict between Ukraine and Russia, which would benefit CEE currencies the most, especially the PLN and HUF in our view.

EUR/PLN moved to the lower end of our range of 4.245-275, and we do not see enough strength to break through. On the other hand, EUR/HUF has a good chance of continuing to move down, especially with likely support from **the NBH next week**. We could thus test 389 in the coming days.

*Chris Turner*

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