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FX Daily: Hawkish Fed minutes keep dollar supported

The dollar remains supported as September FOMC minutes showed a Fed firmly expecting to hike the policy rate again later in the year. French debt markets are still unsettled and EUR/USD remains fragile. Expect more focus on political events in Paris today and also on Bank of England speakers, where centrists could turn more hawkish



Hawkish FOMC minutes provide underlying support for the dollar

USD: Clean, hawkish read from the FOMC minutes

September FOMC minutes published last night reflect a hawkish Fed. One sentence which caught our eye was: "Most participants assessed that another increase in the target range for the federal funds rate would likely be appropriate by year-end." This followed a discussion of frustratingly high inflation and the Fed being surprised about the pace and magnitude of the AI build-out. Notably, most references to the AI investment boom were associated with an inflationary impulse.

But a hawkish Fed is firmly priced by money markets at this stage. After an expected 25bp hike to 4.25% in December, the market still looks for another 50bp of tightening next year. We think that is too aggressive, but doubt the market will want to fight against that hawkish pricing this

year.

This leaves the dollar well-supported and winning more friends in a slightly more difficult investment environment. Here, elevated Treasury yields and rising volatility have sucked money out of the carry trade, where most Latam currencies have been hit quite hard. Given events in Europe, we're looking for the dollar to hold onto gains over the coming months. Additionally, the US 10-year Treasury auction went very well last night, with a strong bid-to-cover ratio and a strong indirect bid, serving as a reminder that demand for Treasuries does exist if yields are high enough.

For today, there is little data of note, but we'll be on the lookout for a speech from the Fed's Chris Waller at 1030CET. He is seen as a centrist, but presumably will stick to the new script about the need for further Fed tightening.

DXY can grind up towards a target at 102.85.

Chris Turner

EUR: Febrile environment for French debt

Having enjoyed a modest rebound earlier in the week, French sovereign debt was hit by a report yesterday that the French Treasury could shorten the duration of its issuance to protect the long end. While that seems rational, investors did not like the fact that this could alleviate pressure on politicians to act. We are hence left with Marine Le Pen's questionable plans for fiscal consolidation next year and the current government's proposal for some modest fiscal consolidation. The debate on the latter may only get started on 13 October, suggesting little stability for French bonds at this stage.

EUR/USD is very much being dragged around by the performance of those French sovereign bonds, OATs, and we continue to favour a dip to the 1.1100/1120 area, where more support may be found.

Chris Turner

GBP: BoE centrists ready to hike?

EUR/GBP has been dragged lower by developments in France and the extra risk premium being built into the euro. But sterling could start to receive some support from Bank of England policy should it look like the BoE is ready to fall in with other central banks and hike rates. After some hawkish speakers earlier in the day, the market will be watching centrist speakers Andrew Bailey and Claire Lombardelli. Any suggestion that they are ready to cross the Rubicon and vote for a hike could depress EUR/GBP further today.

0.8455/65 looks like strong support after quite a sharp drop in EUR/GBP over the last couple of

weeks. That should be tested if it looks like the BoE is ready to hike in November and there is outside risk to the 0.8400 area, while the French budgetary position remains unresolved.

Chris Turner

CEE: Dovish central banks keep FX under pressure

The National Bank of Poland (NBP) left rates unchanged at 3.75% on Wednesday, as expected, while its statement offered little new compared with September. Attention now turns to Governor Adam Glapiński's press conference today. Markets are pricing just under two hikes by year-end and 110bp of tightening in total, setting a high bar for a hawkish message. We expect the governor to emphasise September's softer core inflation and new government measures aimed at easing price pressures. Although the NBP is likely to keep the door open to future hikes, current pricing limits its scope to sound markedly hawkish. We therefore expect hawkish expectations to be pared back, with a steepening bias in rates and renewed pressure on the zloty. EUR/PLN has stabilised around 4.360-4.380 in recent weeks, but yesterday's shift back to risk-off sentiment, combined with a dovish NBP message, should push the pair towards 4.380-4.400.

The National Bank of Romania is expected to leave rates unchanged at 6.50% today, with attention focused on its FX comments. EUR/RON has seen unusual volatility over the past two weeks and yesterday tested fresh highs just below 5.355. Pressure reflects political uncertainty over the formation of a new government and last week's speculation about a possible rating downgrade. Although the rating was affirmed, inconclusive coalition talks continue to cloud next year's budget and the fiscal-consolidation outlook, both key concerns for rating agencies. FX implieds have eased over the past two days, suggesting less NBR activity, but EUR/RON direction will likely depend on the political negotiations. We expect the pair to stabilise near current levels rather than return lower, even if a new parliamentary majority is secured. A prolonged political crisis or collapse in talks would likely push EUR/RON higher.

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