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FX

FX Daily: High bar for a dollar correction

Dollar drops may continue to prove short-lived and quite small in size as bond markets remain fragile and the Fed narrative hawkish. French premium isn't likely to leave the euro very soon, and risks remain of a test of 1.110 in the near term. In Canada, jobs numbers should have improved in September, but an October hike looks premature



A hawkish Fed and fragile market sentiment should support a slightly stronger dollar near term

USD: Upside risks persist

The dollar lost a bit of ground yesterday as Treasuries took a breather, but we don't see signs of a broader USD correction brewing. US President Donald Trump has said the US won't attack Iran before the 3 November midterms, but the oil market is reluctant to price out the geopolitical premium that has kept prices above $100/bbl despite improved Gulf supply.

Today, the focus in the US calendar is on the University of Michigan surveys. Inflation expectations are expected to tick higher, while the sentiment indicator should edge lower. Susan Collins is the only Federal Reserve member due to speak after Alberto Musalem and Christopher Waller reiterated the need to raise rates further yesterday.

With global bonds and risk sentiment still looking fragile, and a hawkish Fed narrative keeping markets convinced of a December hike, we retain a preference for a slightly stronger dollar in the near term.

Francesco Pesole

EUR: Elusive recovery

EUR/USD has made its way back above 1.120 on the back of broader dollar softness, but the common currency isn't showing any signs of recovery against other European currencies (the Swiss Franc, Pound sterling, and Swedish krona).

It's a sign that FX markets aren't ready to scale back the French fiscal premium. The bond market is giving a similar message, with the 10yr OAT-Bund spread oscillating but closing at 140bp yesterday. We don't feel Marine Le Pen's huge fiscal tightening promise is enough to turn the tide for French bonds, and the euro may keep suffering from the French situation for longer.

We still think 1.110/1.112 can be tested in the near term.

Francesco Pesole

CAD: Improved jobs picture, but no October hike

Today, the Canadian jobs report for September is expected to show a partial rebound. Consensus sees payrolls at +10k after August's 42k contraction, and unemployment ticking higher to 6.5%.

The figures shouldn't scream 'October hike', but can definitely consolidate expectations for a move by the Bank of Canada in December, which is fully priced in.

The impact on the Canadian dollar shouldn't be big. CAD has lost around 3% in the past month against USD, but is still in the upper half of the G10 scorecard. US-Canada tensions have been put on the back burner by FX investors, and the USD remains totally dominant in USD/CAD. Improvement in global bond markets remains necessary for the pair to return sustainably below 1.420. The prospect of a Bank of Canada hike can lend some help only on the margin.

Francesco Pesole

CEE: NBP waits a bit longer

The National Bank of Poland's press conference with Governor Adam Glapiński initially struck a hawkish tone, highlighting inflation risks and the impact of higher energy prices. However, the key takeaway for the market is that, according to the Governor, a rate hike in November is unlikely. It appears the government's new measure to lower fuel prices is sufficient for the central bank for the time being, allowing the NBP to wait further. Unless inflation delivers a significant surprise in November, rate hikes will be postponed until the first quarter of 2027 – our baseline scenario.

The market reacted in a dovish manner. However, given the global context, rates remained elevated across the curve. We observe outperformance relative to CZK rates and a steepening of the curve, a trend we expect to continue in the coming days. EUR/PLN remains unchanged, but we maintain our view that the trading range will shift from 4.360-4.380 to 4.380-4.400, driven by a strong US dollar, higher energy prices, and risk-off sentiment in the eurozone.

Elsewhere, as expected, the National Bank of Romania kept rates unchanged at 6.50%, and we did not see many new comments in the statement. We continue to monitor political negotiations in Romania. EUR/RON drifted lower yesterday following headlines, suggesting hope for a new government under technocratic leadership backed by the original coalition parties. Nevertheless, EUR/RON remains above 5.340 and significantly higher than the levels seen in late September, when pressure on the currency began. Should a new parliamentary majority be formed, we expect EUR/RON to stabilise at current levels rather than seeing a leu rally.

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