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FX

FX Daily: Hot inflation to strengthen dollar floor

We expect MoM US CPI to be 0.1pp higher than consensus in both headline (0.7%) and core (0.3%) today. While that shouldn't be enough for markets to price in 50%+ chances of an October Fed hike, it can reinforce expectations of further tightening down the road and, by extension, the dollar's floor. EUR/USD may retest recent lows before any recovery



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We have published the October edition of FX Talking: Au revoir, euro bulls, with updated FX forecasts and views.

USD: Upside risks persist

The dollar had a soft session yesterday as stretched positioning and short-term overvaluation coincided with a recovery in global bonds. A dovish comment by the Fed's John Williams

added a bit of weight to the dollar, more by supporting risk sentiment than triggering much dovish repricing in the front end.

Williams said he still expects another hike this year, but there are signs that inflation will slow and he doesn't see further tightening in 2027. That is in line with the median Dot Plot, and Williams is a dovish-leaning voice, but such an explicit pushback against market expectations (three more hikes by June) has been uncommon.

Today, all eyes will be on US inflation data for September. The consensus is for a 0.6% month-on-month acceleration in headline CPI and 0.2% MoM in core. Our macro team is expecting slightly hotter figures: 0.7% and 0.3% MoM, respectively.

For this reason, we expect some dollar re-strengthening today. Markets may marginally increase expectations for an October hike, but for pricing to return above 50% (now 20%) we probably need to see headline close to 1.0% MoM and/or core at 0.4% MoM today.

Francesco Pesole

EUR: French premium getting entrenched

EUR/USD has climbed back to the 1.120 handle, entirely due to a softer dollar. The euro is not really recovering momentum in other crosses, a sign that French risk continues to weigh. The France-Germany 10yr yield spread tightened around 5bp yesterday to 137bp, seemingly driven by relief in the global bond market rather than idiosyncratic factors.

We have a one-month target of 1.13 in EUR/USD, but we could still re-test the 1.1150-1.1160 area in the coming days. As discussed in the USD section above, we see upside risks for USD today as US CPI is released.

Francesco Pesole

SEK: Looking healthier

EUR/SEK has corrected around 1.8% from the 1 October 11.36 high, with a major contribution from French fiscal risk. It's important to note EUR/SEK was starting from a marked (around 2%) short-term overvaluation at the end of September, and it's now fairly valued – unlike EUR/USD, which is cheap according to our models.

The move is likely welcomed by the Riksbank, which has been keeping a closer eye on the krona's weakness now that inflationary risks are rising. September CPIF inflation didn't scream a rate hike, headline at 1.5% and core at 0.5%, but the Riksbank has clearly signalled it's ready to hike in November, and we see a high bar for a rethink.

A hawkish Riksbank and dovish repricing of ECB expectations have narrowed the two-year

EUR/SEK swap spread by nearly 20bp over the past couple of weeks. While its correlation with EUR/SEK can be patchy, the move currently supports a lower spot. Our one-month target is 11.15, with risks tilted to the downside.

Francesco Pesole

CEE: Gains likely to be short-lived

Yesterday's inflation data from the Czech Republic confirmed a rise in core inflation from 3.0% to 3.1%. Although this is an increase of only one-tenth of a percentage point, it marks the highest figure since December 2023. More importantly, the underlying structure and accelerating momentum effectively cement the case for a CNB rate hike in November – barring a significant improvement in the geopolitical situation.

Speaking of inflation, a new report we released yesterday discussed emerging inflationary risks for the CEE region stemming from energy and food prices. Until now, food prices have offset higher fuel costs in the region, keeping headline inflation in check. This dynamic is expected to shift in the coming months as we see a lagged pass-through of global prices into local inflation.

Market sentiment yesterday was mixed, reflecting a catch-up following Monday's US close alongside natural gas prices hitting new highs. The latter, in particular, suggests that the CEE region cannot enjoy a respite for long. While we saw a rally in FX and rates yesterday, we do not believe the rates rally is justified at this juncture, given the rising risk of higher inflation and the strong correlation observed recently between interest rates and energy prices. Consequently, we expect these gains to be short-lived.

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