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FX

FX Daily: Uneasy calm develops

FX markets have started the week quietly, but the risks hanging over markets remain unresolved. Energy prices are still elevated on the threat of escalation in the Middle East, Coreweave's bonds still trade at 80 cents on the dollar, and French bond spreads are pushing wider as the French situation deteriorates. It is hard to get too bearish on the dollar



FX markets are calm, for now

USD: Consolidation continues

FX markets have had a quiet start to the week. The dollar is down a fraction versus the commodity currencies, but up a fraction against the low-yielding yen and Swiss franc – the latter driven by some US equity stability and a modest back-up in short-dated US rates. Yet none of the key themes and threats have really changed. Energy markets remain nervous that the US and Israel may once again attack Iran ahead of the US Mid-Terms. Or at least energy prices are staying at their highs, preventing much of a correction in bond yields. Concerns over business models of the high-yield US data centre providers remain, with Coreweave's 2032 bond still trading at 80 cents on the dollar. This represents the key threat to dollar strength. French debt spreads continue to widen as conclusions harden that France is still far from any fiscal consolidation.

This mixed picture extends across emerging markets too, where the Korean won and Taiwanese dollar are sharply diverging – having previously both traded together as chip

exporters. The learning here is that central bank policy makes a big difference and the divergence can be explained, we think, by the Taiwanese dollar being punished for a local central bank failing to hike rates in September.

Barring a major leg lower in US tech stocks (Tesla, Meta and IBM report Q3 earnings tomorrow), we expect the dollar to remain relatively supported. Softish US housing data looks unlikely to weigh on the dollar and the weekly ADP employment data is not usually a market mover.

Overall, we expect energy and French news to dominate, meaning that the DXY dollar index should find further support at 101.50/60.

Chris Turner

EUR: Remaining on 'OAT-watch'

EUR/USD is finding a little support even as French debt spreads widen. The French news should remain euro-bearish, as today the lower house votes on the revenue side of the proposed 2027 budget. Both the left and the right have attached numerous amendments to the original bill, meaning that even if it passes, markets are unlikely to welcome it. And the budget bill bouncing between the lower and upper houses into early December seems to be the base case. This week French sovereign debt also has to cope with a Moody's rating review on Friday. Here Moody's could play catch-up with the other agencies in cutting France to a single A-rated issuer. The move is expected; investors are underweight French debt, but there is still little concern that the loss of the final AA rating from the big three agencies could lead to some forced selling.

Despite French budget stress and high energy prices, eurozone business optimism has been holding up surprisingly well. That will be tested today with the release of the German ZEW index and on Friday with the flash PMIs across the region. These are all expected to edge a little lower, but probably not enough to dent the euro.

Expect EUR/USD to remain on 'OAT-watch' today. While a period of consolidation/correction looks necessary after a big fall in September, the case for a EUR/USD recovery remains weak. A move to 1.1180 looks as likely as a rally to 1.1270.

Chris Turner

HUF: Crowded positioning clouds an improving fiscal story

The Hungarian government yesterday presented a budget plan for next year with a deficit of 4.9% of GDP. The consolidation from this year's 7.0-7.5% level would rely on cutting wasteful expenditure, reducing interest costs, reversing pre-election spending, and introducing new taxes. The 4.9% figure is in line with our expectations and roughly in line with market expectations. As we discussed here yesterday, the problem with the current narrative is

crowded positioning. Although the market may be satisfied with Hungary's direction, the trade has proven too heavy, and profit-taking has pushed yields higher, in some cases causing Hungary to underperform its CEE peers, which were also weighed down by global paying flows. Following the release of the budget proposal, EUR/HUF briefly tested new lows but ended the day essentially unchanged.

Today, the fiscal narrative will continue with a joint press conference by the prime minister and the minister of finance; later, the Ministry of Finance will present further details to analysts, which should allow us to better assess the realism of the fiscal plan for next year. Overall, we maintain our previous view that the trade is currently too crowded, and we would not be surprised by a more significant correction, given how strongly Hungarian bonds rallied ahead of the budget plan's release. On the other hand, we remain bullish on the overall story, and we expect that, sooner or later, the market will begin to fade the higher yields.

Today also features a meeting of the National Bank of Hungary, which is likely to leave interest rates unchanged at 5.50%. Although the NBH has cited knowledge of the fiscal plan as a prerequisite for further rate cuts, we believe it is still too early for the central bank to lower rates further. Forward guidance today could be positive in the sense of pointing toward more rate cuts, but at the same time, the central bank should take into account higher global energy prices.

Frantisek Taborsky

BRL: Polls point to neck-and-neck Lula-Bolsonaro race

Having gapped lower to 4.95 on Flavio Bolsonaro's surprise performance in the first round of Brazil's presidential elections, USD/BRL is now consolidating closer to 5.05. Ahead of Sunday's decisive run-off between Bolsonaro and incumbent President Lula, opinion polls have tightened considerably, with some now putting the two candidates at 50:50. Lula's improved polling appears to reflect last-minute changes to Brazil's labour laws, including a Senate-backed reduction of the maximum working week from 44 to 40 hours and the effective abolition of the six-days-on, one-day-off (6x1) schedule.

This Friday sees a final TV debate between the two candidates. The prevailing market view is that the polls overstate how close the race is and Bolsonaro is likely to pick up the majority of the first-round votes directed outside of the two candidates. That could see the USD/BRL gap lower to 4.85/4.90 next Monday morning. However, the bigger move probably comes to the upside should President Lula pull a win out of the bag.

Chris Turner

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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