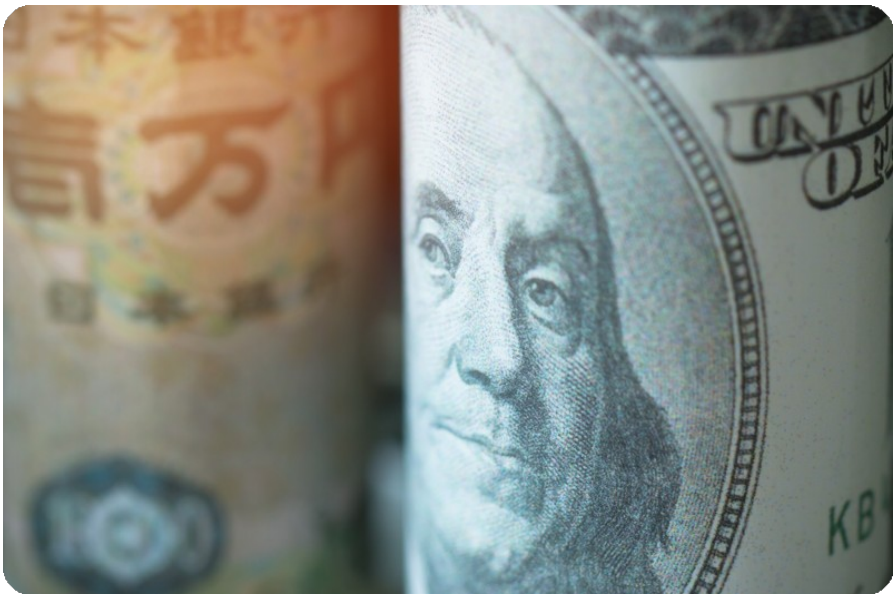
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FX Daily: Dollar has lost its safe-haven crown

The yen and Swiss franc have emerged as the safe havens of choice as the greenback continues to show some vulnerability to the AI story. A further widening in French spreads has not materially hit the euro, but that correlation may spike again soon. Today, PMIs are published, but focus will remain primarily on global equities, France and oil



The dollar's vulnerability to the AI story is driving safe-haven demand elsewhere, notably towards the yen and Swiss franc

USD: Losing safe-haven appeal

Yesterday was a rough session for risk sentiment, as global equities sold off on a combination of higher oil prices and AI-related concerns. FX moves confirmed that the dollar is far from the preferred safe haven at this stage, with the yen and Swiss franc emerging as the main beneficiaries of the defensive rotation.

Crucially, the negative correlation between bonds and equities is reasserting itself, and FX markets are taking their cues from that dynamic. 10yr Treasuries broke back below 5.0% for the first time in a month, showing ever-reduced sensitivity to higher oil prices. The same dynamic is visible at the front end, where the 2yr SOFR swap rate dropped 15bp to 4.50% yesterday. That suggests equity jitters are enough to dent market conviction on a large

Federal Reserve tightening cycle.

Still, the bar for pricing out a December Fed hike appears fairly high, which should prevent larger USD corrections for the moment. Any stabilisation in risk sentiment can help USD consolidate across most pairs and take some shine off JPY and CHF. But the FX reaction function to further risk sell-offs is now looking much clearer.

On the data side, focus will be on S&P Global PMIs today. Consensus is for some softening in the US figures, which, however, remain deep into expansionary territory.

Francesco Pesole

EUR: Sensitivity to France can return rapidly

The OAT-Bund 10yr spread closed at 174bp after touching 178bp yesterday. That wasn't the only EU sovereign spread widening yesterday; bunds outperformed (+9bp) on haven demand, and energy prices played a role too.

But OATs saw the only increase in 10yr yields in Europe (+6bp), and the OAT-BTP spread has reached a grim 50bp milestone. The budget/political situation is not visibly deteriorating, so the move is probably a function of OAT's simply having a higher beta to global factors and perhaps some concerns about another weekend of social unrest in France.

The euro's sensitivity to France has clearly diminished, with the common currency not materially underperforming G10 peers yesterday. That link may, however, re-establish very rapidly should a new pain level – perhaps 200bp – be breached. We aren't expecting that much further widening for now, but the risks are clearly there, and the euro remains rather unattractive across the board.

EUR/CHF remains the cleanest way to play European sovereign risk at the moment, while EUR/USD should be quick to re-test the 1.1120 14 October low should bond turmoil persist. Today's PMIs will probably play a secondary role to France, which faces a Moody's credit review, and global equities. Expectations are for slightly softer numbers compared to September.

Francesco Pesole

CEE: Global risk-off sentiment weighs on region currencies

The end of the week offers little in the regional calendar, with the primary driver remaining the broader global narrative. Deepening "risk-off" sentiment and the continued rise in energy prices are weighing on emerging market currencies, including those in CEE. Nevertheless, the region is demonstrating admirable resilience; despite some fluctuations in rates, the FX market remains relatively robust. Even so, we maintain a bearish outlook on CEE currencies in general.

EUR/CZK and EUR/RON have reached the targets we discussed here on Monday.

In the Czech Republic, we saw an interview yesterday with Czech National Bank Deputy Governor Jan Frait, marking the start of the current round of official commentary ahead of the November policy meeting. Although the market interpreted the interview as dovish, we view it as preparation for a rate hike. Furthermore, as Frait is one of the more dovish members of the Bank Board, subsequent comments from other officials are likely to be more hawkish. This supports further strengthening of the koruna, despite a significantly negative global environment; consequently, we could see a test of the 24.200–24.250 range.

EUR/RON has normalised, returning to the 5.340 level, following the parliament's vote of confidence in the new technocratic government. As we noted previously, we do not expect the new government to trigger an FX rally, but rather to foster stabilisation around current levels. This remains our baseline view, though the risk remains tilted to the upside for EUR/RON should political uncertainty return.

On the bearish side, the Polish zloty and the Hungarian forint remain particularly vulnerable. They may face further downside, given the absence of a hawkish stance from their respective central banks, combined with high exposure to energy imports and rising energy prices. The upside for EUR/HUF should be capped in the 368–370 range, supported by a local, idiosyncratic narrative; we would expect to see new sellers of EUR/HUF emerge there. Conversely, EUR/PLN lacks this benefit and remains exposed to the upside.

Frantisek Taborsky

MXN: Banxico has done a number on the peso

Since US rates exploded higher at the start of September, the Mexican peso is by far the worst-performing EM currency. It is close to 8% weaker versus the dollar. The next worst currency is the Romanian leu at around 4%. The peso has been hit hard by dovish Banxico rhetoric, outlining that it did not plan to mechanically track the Fed with rate hikes. Should Banxico fail to match a presumed rate hike from the Fed in December, the Banxico-Fed policy rate spread will reach the narrowest on record and leave the peso exposed at a difficult time for risk assets.

Barring a hawkish surprise from Banxico at its 5 November meeting, we expect the peso to remain vulnerable. We note that in the IMF financial stability report, Mexico was seen to have the near entirety of its foreign portfolio investments in US securities, which the IMF saw as AI-chasing behaviour. Unrest in the tech sector may therefore be weighing on the peso. 19.00/19.10 looks to be the trajectory for USD/MXN over the coming weeks.

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