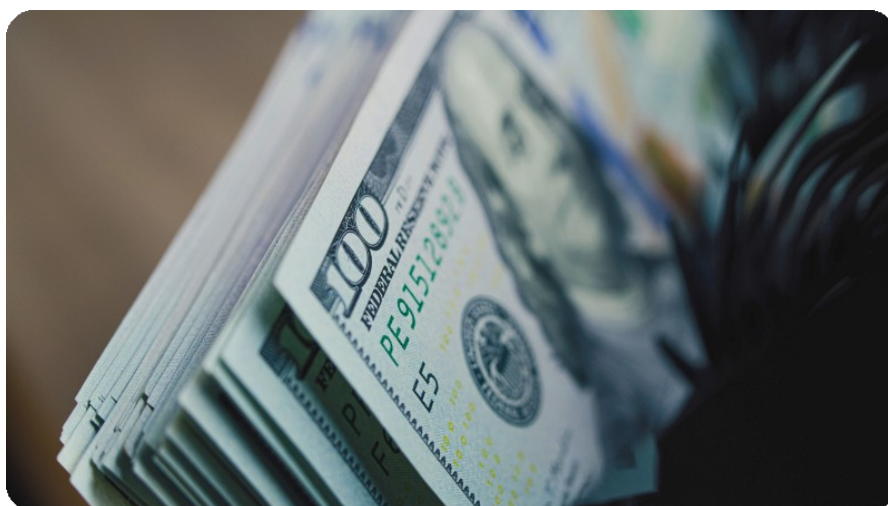


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FX

FX Daily: Dollar holds gains as geopolitics heats up

News over the weekend of continued Houthi strikes in Riyadh and a supposed energy ceasefire between Russia and Ukraine have had little meaningful impact on FX markets so far. The dollar remains well bid, and what could be a hot US September CPI this week will keep expectations of Fed tightening and a stronger dollar in play



The dollar remains supported amid rising geopolitical tension

USD: Geopolitics to keep the dollar supported

FX markets have been reasonably quiet at the start of the new week, barring a jump in the Indian rupee on some defensive measures instituted by the Reserve Bank of India. Energy prices do not quite know what to make of weekend developments, where Houthi strikes against Saudi Arabia have escalated local tensions, while at the same time US President Donald Trump has tried to present an 'energy ceasefire' between Russia and Ukraine. On the latter, Russia has yet to respond to the invite and continues to target energy infrastructure in Ukraine.

Instead, FX markets are preferring to concentrate on the cyclical story of decent US growth, above-target inflation and the prospect of the Federal Reserve hiking 75bp from current levels. Barring a big fall in energy prices this week, which seems unlikely, Wednesday's release of September US CPI inflation looks set to keep those Fed tightening expectations broadly intact. Our team see upside risks to the consensus of 0.2% month-on-month on the core reading. And

as James Smith discusses in his [weekly column](#), it may not be until next spring when tightening expectations can drop out of money markets. This points to the dollar staying supported by the cyclical story for a good while yet.

Other highlights this week include a new World Economic Outlook from the IMF and the US 3Q earnings season kicking off tomorrow when bulge bracket banks release.

With US bond markets closed for the Columbus Day public holiday, it should be a quiet day for FX markets. But DXY consolidation above 102 looks bullish, and our preference would be for a push up to 102.85 this week.

Chris Turner

↓ **EUR: Little reprieve for the euro**

EUR/USD is consolidating near 1.12, and support remains fragile. French debt spreads remain near their widest, with Marine Le Pen's counter-budget proposal last week raising more questions than it answered. In theory, the French government's budget proposal of €43bn in new savings will be debated in parliament this week. Consensus seems to expect that this will make little progress, but that the government might ultimately be able to pass this budget by decree. Here, protagonists in parliament might avoid trying to bring down the government, which would make the French debt crisis worse than it already is. This is hardly a euro positive, however.

Speculators and the FX options market remain quite bearish on EUR/USD currently, although positioning is starting to get a little stretched. But barring a big US policy misstep, which again questions investors' long dollar exposure, the macro story remains EUR/USD bearish. For the near term, a further dip towards 1.1100/1120 looks more likely.

Chris Turner

→ **CHF: Caught between higher rates and France**

EUR/CHF is consolidating after its heavy fall just over a week ago. That move was driven by French debt problems being severe enough to curtail European Central Bank tightening expectations. However, it is not clear that short-dated euro rates need to fall a lot further from here, unless we see a sharp drop in energy prices. Currently, the market prices 22bp of hikes in December (we look for a 25bp hike) and then a further 30-40bp of tightening into next year. With eurozone inflation still pushing higher (September eurozone CPI should be confirmed at 3.8% year-on-year this week), it seems too early to expect 2027 hikes from the ECB to be cancelled.

This all adds up to a mixed picture for EUR/CHF. We cannot rule out a correction to the 0.9230/50 area should the OAT-Bund spread decisively push through the 150bp area, but any

brief periods of calm can see EUR/CHF trade back up to 0.9350/9400.

Chris Turner

📌 CEE: Inflation tests meet global FX headwinds

This week's focus is on regional inflation releases and speakers. Romania's September inflation is due tomorrow; we expect it to rise from 6.2% to 6.4% and, consistent with the central bank's guidance last week, increase further through year-end. In the Czech Republic, final data should confirm September inflation at 2.5%, while Czech National Bank core inflation is likely to edge up from 3.0% to 3.1-3.2%, above the central bank's forecast. Poland's headline inflation should be confirmed at 4.0% on Wednesday, followed by a likely drop in core inflation from 3.3% to 3.1% on Thursday, giving the National Bank of Poland more room to manoeuvre. Hungary releases wage data on Friday; wage growth remains high relative to the region and continues to pose inflationary risks.

Beyond the data calendar, attention will turn to the IMF meetings in Bangkok, where CEE officials are expected to speak. Hungary may publish next year's draft budget and medium-term fiscal outlook late in the week. Market expectations have moved from around 5.5% towards 5.0%; although this raises the bar for a positive surprise, the direction remains supportive for bonds. In Romania, talks on forming a new government continue. Signs of progress emerged late last week and should help stabilise EUR/RON.

CEE FX remains primarily driven by global factors, and our bearish regional bias is broadly unchanged. After the NBP meeting, EUR/PLN rose into our expected 4.380-4.400 range and is likely to stay near its upper end in the coming days. The forint is awaiting the government's 2027 budget announcement but remains exposed to higher energy prices and a stronger US dollar. The koruna remains the outlier, supported by a wider interest-rate differential. We retain a bullish koruna view and expect EUR/CZK to move towards 24.250.

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