

FX Viewpoint

Currencies
Global

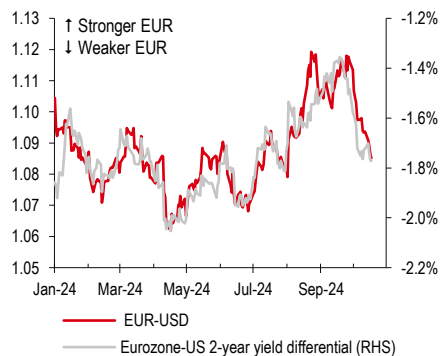
EUR: The ECB's third rate cut ahead of US elections

- ◆ As widely expected, the ECB delivered its third rate cut of the year in October; the EUR weakened slightly
- ◆ The near-term focus will probably move to the US elections, with fiscal policy becoming a growing talking point...
- ◆ ...but the FX market should also look at the Eurozone's fiscal policy and its challenging economic outlook

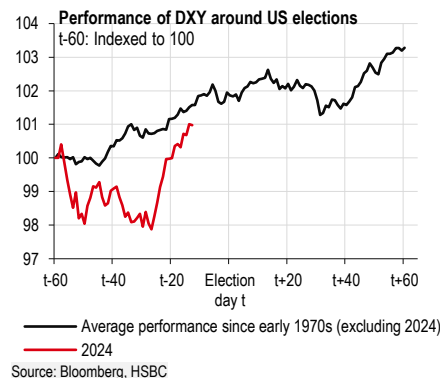
On 17 October, the European Central Bank (ECB) cut all policy rates by 25bp, the third cut of the year, taking the deposit rate to 3.25%. The ECB is increasingly worried about growth, while noting that incoming information “shows that the disinflationary process is well on track”. Our economists expect 25bp cuts in December and every meeting until April 2025. This widely expected decision saw a slightly weaker EUR, with EUR-USD tracking its yield differential (Chart 1).

The near-term FX focus will probably move to the 5 November US elections. **We take note of how the USD has tended to strengthen into previous US presidential elections** (Chart 2). History could rhyme this time too, given the tightness of the race and unclear implications for fiscal, trade, tax, and spillovers to monetary policy (see [FX Viewpoint – USD and four US election scenarios](#)).

1. EUR-USD and its yield differential



2. The USD tended to strengthen into previous US presidential elections



Looking beyond the short-term reactions, we think **the implications of the US elections will probably prove unhelpful for most European currencies over the medium term**. Neither US presidential candidate appears to be fiscally conservative – a stance that could weigh on the EUR via stronger US growth and higher US yields under clean sweep outcomes (i.e., one party manages to win the White House and both chambers of Congress in the election). This is a contrast to the tightening of the Eurozone's fiscal policy amid the return of the Growth and Stability Pact. A divided US Congress would reduce this EUR headwind.

European countries will also be wary of US trade policies, particularly given their current weak growth outlook. While the Republican campaign appears to have a more aggressive stance on tariffs, the Democrat administration has also pursued some trade protectionism policies. The EUR and currencies with large trade exposures to the Eurozone (such as the GBP and NOK) will unlikely fare well.

The ECB delivered its third rate cut this year, in line with market expectations

The USD is likely to fare well in the run-up to the US elections

We expect the EUR to weaken against the USD over the medium term amid potential fiscal policy divergence, relative growth outlook, and yield differential

Trade protectionism may weigh on the EUR, in our view

Disclosure appendix

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