

## Rate cut momentum likely to pass from Fed to ECB

The USD came lower in September with markets expecting aggressive Fed easing after the jumbo cut, with FOMC labour and inflation projections seen as too optimistic, but momentum is likely to shift to ECB cuts with fading services inflation ahead. We continue to expect some recovery in the USD, from the point of view of the ECB remaining the most behind the curve, but still change projections for other currencies in favour of a slightly weaker USD. In all this, we also watch a long-term trendline in the EUR, which might be broken.

### Exhibit: Projections for FX markets – EUR retained, USD weaker elsewhere

	INR	EUR	GBP	JPY	CNY
Mar'25	83.50-84.50	1.06-1.08	1.32-1.34	139-141	6.90-7.10
Jun'25	84.00-85.00	1.06-1.08	1.32-1.34	138-140	6.90-7.10
Sep'25	84.00-85.00	1.07-1.09	1.33-1.35	137-139	6.85-7.05
Dec'25	84.50-85.50	1.08-1.10	1.33-1.35	136-138	6.85-7.05
Mar'26	84.00-85.00	1.08-1.10	1.32-1.34	135-137	6.90-7.10
Jun'26	84.50-85.50	1.09-1.11	1.32-1.34	134-136	6.90-7.10
Sep'26	85.00-86.00	1.09-1.11	1.32-1.34	134-136	6.95-7.15
Dec'26	85.00-86.00	1.09-1.11	1.32-1.34	134-136	6.95-7.15

Source: Axis Bank Business and Economic Research

### USD comes lower in September, but fails to break past supports

The USD came lower in early September, with weaker labour markets data, and later on with the jumbo Fed rate cut as well as cautious ECB and hawkish BOJ comments – though multiple attempts to break supports have so far failed. The INR was allowed to appreciate in the month, perhaps with a stronger CNY fix bias and the CNH having traded stronger than the 7.00 level amid stimulus. However, momentum in the USD has stalled at month-end, with shifts to Fed/ECB language.

### The ECB remains most behind the curve, despite large Fed cuts

Markets are pricing in further aggressive Fed cuts, with latest FOMC projections judged too optimistic on both inflation and labour markets, but the divergence with the ECB might have peaked, especially with lower services inflation here. We have in the past indicated that the USD will recover somewhat when rate expectations momentum transfers from the Fed to the ECB. The BOJ is for now in political purgatory, with tightening only when absolutely unambiguous, while the CNY is being encouraged to appreciate amid stimulus. There might also be a change in INR dynamics, with the RBI allowing some volatility on the appreciation side – whether this translates to more two-way volatility, or an adjustment of the midpoint remains to be seen.

### Some trimming to our stronger USD projections, long term trendline watched

In the last edition of this note, we had indicated a bias for a USD rebound by March given changes in rate cut expectations momentum, which we continue to hold. In line with this, our projections for the EUR are largely unchanged, but those for the GBP, JPY, CNY and INR are in the direction of a slightly weaker USD – with developments watched, especially in light of a long-term trendline in the EUR.

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