

## **Dollar steadies ahead of Fed meeting, yen rises on Bessent comments**

By Ankur Banerjee and Lucy Raitano, Reuters, October 28, 2025

The dollar steadied on Tuesday ahead of an expected Federal Reserve rate cut, while the yen rose after the U.S. treasury secretary urged the Bank of Japan to follow "sound monetary policy", which investors took as a call for higher rates. The yen strengthened 0.48% to 151.15 per U.S. dollar ahead of a Bank of Japan meeting this week where the central bank is expected to hold rates steady, but the focus will be on whether it provides clues on the timing of the next hike. Comments from Treasury Secretary Scott Bessent lifted the yen as he called for "sound monetary policy" during his meeting with Japanese counterpart Satsuki Katayama, in his latest swipe at the slow pace of interest rate hikes by the BOJ. "Bessent is stating a clear preference for conventional policy tools like interest rate hikes rather than FX intervention, that took dollar/yen down," said Kamal Sharma, senior FX strategist at Bank of America. Investors were also weighing President Donald Trump's meeting with Japan's new Prime Minister Sanae Takaichi in Tokyo on Tuesday, where he welcomed her pledge to accelerate a military buildup and signed deals on trade and rare earths.

### **CHINA TRADE DEAL HOPES REMAIN INTACT**

While early signs of easing trade tensions between the U.S. and China led to a risk rally on Monday, with the dollar slipping against rivals, investors are apprehensive that any real Sino-U.S. deal may offer far less to celebrate. The spotlight will be on the meeting between Trump and Chinese President Xi Jinping in South Korea on Thursday. "I've got a lot of respect for President Xi and I think we're going to come away with a deal," Trump told reporters on Air Force One before landing in Tokyo. Chinese officials have so far been circumspect about trade talks with U.S. counterparts and have said little on the potential outcome. Vasu Menon, managing director of investment strategy at OCBC, said it was possible there might not be a "perfect resolution or even a resolution in some cases, and the can could be kicked down the road to be addressed later." "When you have two economic superpowers with strong-headed leaders trying to work out a deal, one can imagine that it will not be a seamless affair," he said. But Menon added that if the two leaders are able to make some concrete progress, it may be enough to satisfy markets for now as investors seek silver linings to keep the bull run on track.

The anticipation around the outcome of trade talks and an expected 25-basis-point rate cut from the Federal Reserve have left the dollar on the back foot. The euro hit a one-week high of \$1.166 on Tuesday and was last flat. Sterling meanwhile fell 0.3% to \$1.3291, as traders refocused on the UK's tricky fiscal backdrop ahead of a Bank of England (BoE) meeting due next week and a budget set for November. The dollar index, which measures the U.S. currency against six other units, was unchanged at 98.81, having dropped 0.15% in the previous session. "The market is continuing to struggle with themes, a lot of those dynamics at the beginning and to the middle of the year post-Liberation Day are well known now: politicisation of the Fed, FX hedging, de-dollarisation," said BofA's Sharma. He said the team at BofA thinks the same themes will be at play over the course of the next year, leading to more dollar weakness.

### **FED MEETING IN FOCUS**

With a rate cut from the Fed priced in, markets will closely watch for any signs that the central bank may be preparing to wind down its quantitative tightening program. Focus will also be on whether the central bank and Fed Chair Jerome Powell provide clarity on further rate cuts as the U.S. government shutdown continues, leaving policymakers without economic data. Traders are pricing in another cut in December. "We do not expect formal guidance about the December meeting, but if Chair Powell is asked, he will likely be comfortable referencing the September dots, which imply a third cut in December," said David Mericle, chief U.S. economist at Goldman Sachs. The Fed cut rates last month by 25 bps. Over in Europe, the European Central Bank is all but certain to keep rates on hold again on Thursday as traders waver on whether it will resume easing next year. The Australian dollar, often seen as a proxy for risk appetite, was unchanged at \$0.6556, a two-week high. The New Zealand dollar was also steady at \$0.5768.

## **Sterling slips as UK's fiscal hole brought into focus**

By Reuters, October 28, 2025

The pound slipped versus the dollar and the euro on Tuesday as the UK's fraught fiscal backdrop was brought into stark focus again, ahead of next week's Bank of England meeting and a closely-watched budget just one month away. Britain's budget watchdog is expected to cut a key productivity forecast by a larger-than-expected 0.3 percentage points, people familiar with the situation said, potentially leading to a 20 billion-pound (\$26.8 billion) hit to the public finances. At 1232 GMT, the pound was 0.24% lower at \$1.3298, making it the worst-performing major currency against the dollar of the day. It was also weaker against the euro, which rose 0.3% to 87.6 pence. Francesco Pesole, FX strategist at ING, said the trigger for sterling weakness was news of the Office for Budget Responsibility's plan to cut its productivity forecast by 0.3

percentage points. "That automatically widens the fiscal hole that (finance minister Rachel) Reeves needs to fill with the Autumn budget," he said.

The gilt market, meanwhile, held fairly steady, with 10-year yields trading just below 4.4%. The countdown is on ahead of Reeves's budget on November 26 with both tax rises and spending cuts on the horizon. Meanwhile the Bank of England (BoE) is expected to keep interest rates at 4.00% at its November 6 meeting, and a small majority of economists polled by Reuters now expect no further policy easing this year. Traders are still pricing in a 35% chance of a BoE rate cut at the next meeting and money markets show they believe the base rate will be some 20 basis points below the current 4% level. "I don't think the market thinks that ahead of a critical budget, the Bank of England will show its hands. It'll probably want to digest the information first and then start cutting next year in about February," Kamal Sharma, Senior FX Strategist at Bank of America, said.

The pound came off a peak of \$1.3787 in July but remains up 6.4% versus the dollar in 2025. The euro briefly hit its highest level against the pound since May 2023 in early trading before paring some of those gains. "The pop above the 87.5 level probably saw a few stops being run," said Michael Brown, senior research strategist at Pepperstone, which he said exacerbated the brief spike. "The lack of follow-through behind that move is not only notable, but will likely also worry the longs a little. Really needs a break above 87.7 to get the move motoring a little more," he said.

## **As Trump-Xi trade talks near, investors turn to history as a guide**

By Saqib Iqbal Ahmed and Yoruk Bahceli, Reuters, October 28, 2025

Investors are heading into this week's trade talks between the U.S. and Chinese leaders with a sense of déjà vu, excited by the proclamations of a truce and apprehensive the real deal may offer far less to celebrate. Stock markets across the world jumped on Monday after U.S. officials said negotiators from both sides had hashed out a framework for agreements for lower U.S. tariffs on Chinese imports and Chinese concessions on rare earth export curbs. As expectations build for U.S. President Donald Trump to sign that deal with Chinese President Xi Jinping on Thursday and for some respite in the long mercurial relationship between the world's top two economies, the S&P 500 index (.SPX) rose 1% to hit a record high. Stock markets in South Korea (.KS11) Taiwan (.TWII) and Japan (.N225) too, notched new highs, while traditional havens such as gold fell in a sign investors were prepared to take more risky bets.

It's a pattern markets have followed through Trump's first and now second presidencies, such as during the 2019 trade war with China and after his "Liberation Day" global tariff blitz this year, positioning for Trump to eventually back down after going on the offensive against trade partners. "We had this big headline, markets sold off, we had some wobbles on that, but now it seems that talks are constructive again and now that's being faded," Evelyn Gomez-Liechti, multi-asset strategist at Mizuho, said. "To be honest whenever we get all these headlines from Trump it also follows this TACO pattern. I feel like this was just the strategy again," she said. "TACO" - Trump Always Chickens Out - is a Wall Street acronym for the view that the president makes big threats but eventually backs down.

In the past month, stocks fell after Trump threatened to impose additional 100% tariffs on imports from China as well as export controls on critical U.S.-made software, after Beijing tightened its rare earth restrictions. Repeating the TACO pattern, Chinese stocks (.CSI300) have been rising for more than a week in the run-up to the Xi-Trump talks. Even if the Trump-Xi meeting does not produce a definitive end to their trade war, investors are prepared to buy into any de-escalation in tensions. "There is not an insignificant number of discretionary fund managers who have been wary given enormous ructions we've been seeing to the global trade environment," said Ross Hutchison, head of euro zone market strategy at Zurich Insurance Group. "There genuinely is scope for those investors to buy into positive news flow here," he said.