

## Brazil: A hawkish hold

The highly unpredictable political and fiscal outlook in Brazil complicates the central bank's job today. We don't think rates will change but the guidance will



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### BRL: Heightened risk calls for a hawkish policy turn

The highly unpredictable Brazilian political and fiscal outlook, and its potentially temporary impact on the Brazilian real, complicates the central bank's decision at today's monetary policy meeting. ING Chief LatAm Economist Gustavo Rangel expects the central bank (BACON) to alter its guidance from neutral to hawkish, instead of opting for an outright rate hike ([see our preview](#)). Given low inflation and still substantial ammunition to intervene in the FX market, if necessary, authorities can wait until after the elections for a better assessment of the political and fiscal outlook. With the on-hold decision being a strong consensus call, unchanged rates should not be overly detrimental for the real, particularly if policymakers deliver a hawkish bias. USD/BRL to stay below the 4.2000 level today.

### USD: Tentative risk rally keeps USD at bay

Risk assets continue to stabilise, with investors looking through an escalation in the trade war (the initial 10% tariff on \$200 billion of Chinese exports was lower than expected though is set to rise by year-end). Yet, we remain cautious and have doubts about the persistence of emerging market FX

gains given the risk of a further escalation in this trade battle ahead of the US mid-term elections and the ongoing idiosyncratic risks within the EM segment (i.e. potential US sanctions on Russia and renewed weakening of the Turkish lira). On the EM side, the ongoing rise in oil prices and its pro-inflationary effect is likely to keep pressure on local central banks to keep real rates attractive.

## **EUR: Stable EUR/USD, short-term upside risk to EUR/GBP**

EUR/USD should continue treading water at the 1.1700 level. ECB President Mario Draghi's speech at the Making Europe's Economic Union work conference today is unlikely to provide a major impetus for a material move in the euro. In the UK, our economists expect August CPI (2.3%YoY vs 2.4%) to be below consensus. This would reflect the previous Bank of England suggestion that UK inflation could be softer than estimated given waning transitory factors. This could put a temporary limit on the pace of the EUR/GBP decline, which came amid a rally in the pound on optimism over a Brexit deal. EUR/GBP may test 0.8900 today.

## **HUF: No reason to change a bearish forint view**

Despite headline-grabbing news which translated into a stronger Hungarian forint, we see yesterday's central bank announcement of a roadmap towards policy normalisation as a non-event as (a) the end of QE and MIRS programmes were largely expected and (b) it didn't deliver a clear pre-commitment to normalising Bubor. With the central bank pointing to the need to maintain loose monetary conditions to achieve its CPI target by mid-2019, not much has changed and we prefer to fade forint strength, expecting EUR/HUF to converge towards 330 in coming months.