

Brazil: One last rate cut

Brazil's central bank is widely expected to cut rates today. It should be the final move



Source: Shutterstock

BRL: Central bank to end its 800bp easing cycle today

Brazil's central bank, BACEN, is widely expected to cut rates 25bp to 6.25% today. This should be the final move in a cycle which started at 14.25% back in 2016. With inflation surprising on the downside our Latam economist, Gustavo Rangel, [believes that BACEN easing](#) won't be deterred by the recent sell-off in the Brazilian real. What's important for today, however, is that BACEN signals the end of the cycle. Leaving the door open for any further rate cuts would be negative in our opinion, since cheaper BRL hedging costs (delivered by both lower BRL and higher USD rates) have been contributing to the sharp rise in USD/BRL. It does also seem that BACEN has been starting to re-use USD swap auctions to slow the USD/BRL rally – and has plenty more ammunition to do this ahead of October Presidential elections. With Argentina showing some tentative signs of stability after the central bank successfully rolled Lebac securities yesterday, BRL could start to find a little support in the 3.65/70 area against the dollar.

USD: Strong policy response required to reassure EM investors

We [would say](#) it has been a combination of higher oil prices driving US rates higher, plus a weak response from some emerging market policymakers that has triggered the kind of broad dollar

advance seen yesterday. Further upside could be seen to crude today if the monthly EIA oil market report confirms strong OPEC compliance to quotas in April (Saudi production seems especially low) and also a healthy rebound in US industrial production. On paper then, today could see a repeat of yesterday. However, the situation in Argentina seems slightly more stable after the central bank rolled short-term securities and EM investors still seem keen to put money to work in EM equities – even Turkey! With our rates strategy team feeling there is little to stop US 10-year Treasury yields pushing to 3.20%, momentum would certainly seem to back a further dollar advance. 94.20 seems to beckon for the US dollar index, but we suspect the advance may be hard won.

EUR: Draghi speaks at 1430CET

1-month USD OIS, priced two years forward, have risen 70bp this year. 1m EUR OIS, priced two years forward have risen 7bp. It seems unlikely the European Central Bank will change its dovish tune anytime soon (especially with the shape of the new Italian government) but the EUR 5Y5Y inflation swap has risen back to February levels and suggests the ECB may not be so immune to the oil story. We'll hear from President Mario Draghi today at 1430CET. As above, momentum is with the dollar and means that 1.1700/1720 looks possible for EUR/USD. Yet these should prove attractive multi-quarter hedging levels for those long USD.

GBP: More out-performance versus the EUR

Better earnings data keeps a Bank of England rate hike alive. EUR/GBP dip to extend to 0.8730.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.