Central bank decisions in view

Switzerland has left monetary policy unchanged. Next up, Norway and South Africa

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EUR: Full focus turns to EUR/CHF

On EUR crosses, the focus turns on EUR/CHF in the context of the Swiss National Bank meeting today and the recent strengthening of the franc. The SNB left its expansionary monetary policy unchanged and said it would remain "active in the foreign exchange market as necessary". In Central and Eastern Europe, the Czech koruna underperformed its peers yesterday, moving back above 25.50. With two central bank hikes fully priced in for the remainder of the year and another two for next year, we now see limited room for the Czech National Bank to provide a boost to the koruna in coming months.

NOK: Hawkish hike supporting NOK

We look for the Norges Bank deliver a 25 basis point hike today (to 0.75%, the first NB hike since 2011) and also an upward shift in the interest rate forecast to signal the possibility of three more hikes in 2019 (see Norges Bank Preview). The hawkish hike should provide another boost for the krone. Coupled with the improving risk environment (a positive for a high beta NOK), EUR/NOK is likely to break below the 9.5000 support.

USD: Range bound trade-weighted dollar today

With limited US data and markets seemingly taking a pause for breath following the rebound in risk assets earlier in the week, we don't look for much direct movement in the US dollar index today. In emerging markets, the focus shifts to Turkey where the Medium Term Economic Plan is set to be unveiled. In particular, we look for details on fiscal consolidation and potential help to the banking sector (to deal with asset quality pressures). For the Turkish lira to see a change in fortunes, a strong credible plan today coupled with sustainably tight and pro-active monetary policy is a must.

ZAR: SARB in a bind

The South African Reserve Bank (SARB) meets to set interest rates today and only two of 18 analysts expect a pre-emptive 25 basis-point hike in the repo rate (currently 6.50%). While yesterday's August CPI surprised on the downside, we very much doubt that SARB will sound more relaxed on inflation. Instead, the near 10% fall in the rand since the last meeting in July and higher oil prices could deliver some upward revision to the bank's CPI forecasts – currently seen as cresting near 5.7% year-on-year in 1Q19 (top of 3-6% SARB target range). How the larger output gap impacts inflation forecasts remains to be seen (2Q GDP contracted 0.7% quarter-on-quarter and put South Africa in a technical recession). In its July forecast release, the SARB had 2018,19 and 20 expectations for the repo rate at 6.9%, 7.3% and 7.7%, respectively. These are pretty close to the tightening cycle currently priced into the FRA curve. Assuming the SARB sounds suitably hawkish today, the rand should hold onto recent strength, but a move below 14.50 in USD/ZAR may be difficult to sustain given the unresolved US/emerging market climate.