Daily FX: Don’t expect HUF gains to last for long

Expect the central bank of Hungary to shift from very dovish to mildly dovish / neutral stance today. Elsewhere expect the dollar to stay gently bid against low yielding currencies on the back of strong US housing starts and a bounce-back in industrial production numbers

The Széchenyi Chain Bridge in Budapest (Pixabay)

Source: Pixabay

USD: Focusing on the US industrial sector today

We expect the dollar to stay gently bid against the low yielding currencies today. Driving that strength should be another strong US housing starts number (interest rate sensitive sector) and a bounce-back in industrial production numbers as 50,000 General Motors employees returned to work after a strike.

Any optimism may be tempered, however, by news that Boeing is temporarily stopping 737 MAX production raising concerns for its broad supply chains. The dollar should also derive support from weakness in European currencies, where the new UK government looks set to pursue a hard Brexit policy (no transition extension) making 2020 another uncertain year for Europe. We favour DXY edging back to the 97.50/60 area.

EUR: Stagnation

Our Eurozone team published their latest quarterly report, which makes for a sobering reading.

2020 Eurozone growth is seen at just 0.7% versus 1.2% in 2019 and clearly it is hard to pitch Europe as a recovery story. This resonates with the tone in our 2020 FX Outlook, where we identified a set of currencies with growth, yield and value characteristics – generally outside of Europe. Expect EUR/USD to continue trading well inside a 1.11-1.12 range.

Read our latest Eurozone Quarterly here

GBP: Pushing ahead with a hard Brexit

GBP is lower on news that the government wants to insert a clause into its Withdrawal Agreement Bill (WAB), legislating that the end 2020 transition deal is not extended. This plays to the Labour leave voters, who probably couldn't stomach the idea of a two-year extension and paying into the EU budget without a say over policy. The move will clearly focus trade negotiators and it sounds like Downing Street is pushing for a Canada-style FTA on goods, with little care for services or regulatory alignment.

The news probably cements the idea that 1.35 is a near term top for Cable and favours a correction to 1.3050/3150. Through 1Q20, we're thinking Cable traces out a 1.29-1.35 range.

HUF: NBH shift from very dovish to mildly dovish / neutral stance

While not changing the interest rate and associated forward guidance, we expect a shift in the centra bank of Hungary's risk assessment today. We think it will state that the balance of risks has become symmetric. Moreover, the amount of liquidity for 1Q20 might be cut by HUF100bn to the HUF200-400bn range. This can be modestly supportive for HUF today, particularly given short forint positioning. EUR/HUF can test the multi-month low of 327.70.

Still we don't expect HUF gains to last for long as the central bank stance will remain loose, current account dynamics have deteriorated and HUF exhibits the most negative real rate in the region (and in wider EM space). We expect EUR/HUF to head to 340 next year.

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