

## Emerging markets: Managing the symptom, not the cause

Emerging markets may push through more measures to stabilise their currencies this week. But the root of the problem-namely external pressure from a strong US dollar- seems to be getting worse



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### USD: US rates are providing a strong underpinning to the dollar

As we discuss in our G10 FX Week Ahead, [Running Repairs](#), many emerging market economies are making some progress on treating the local fallout of high US rates and a strong dollar. We've seen rate hikes in Turkey and Russia last week as well as some measures from India- met with a mixed reception- to improve its Balance of Payments position. We'll see more measures this week, particularly from Turkey, where Ankara on Thursday should release the highly anticipated Medium Term Economic Plan. Here, fiscal consolidation will be in focus. The cause of a lot of the external pressure, however, is the US economy running hot. Noticeably the market is minded to think that the Fed cycle may not stop in the 2.60/2.70% area after all. For example, the one-month USD OIS, priced two years forward, broke to a cycle high above 2.70% last week – a move which is helping to drive short-dated dollar yields spread wider and provide a little more support to the dollar. In reality, President Trump could announce new tariffs on China anytime (reports suggest a 10% tariff on \$200 billion could come today), but in the absence of first tier US data releases we prefer

more dollar consolidation this week. 94.40-95.40 looks to be the near term range for DXY.

## EUR: Uneasy calm on the Italian budget

Buyside investors appear to accept Italian budget rhetoric that fiscal discipline will be respected when the 2019 budget is submitted on 27 September. Smooth sailing on this issue could be a dangerous assumption with a populist government and we wouldn't be chasing EUR/USD higher on this alone. The best hope for the EUR this week may be a tailwind drag from any positives that GBP enjoys on the Brexit story.

## GBP: Salzburg surprise?

GBP could out-perform this week if the EU decides to adopt a more flexible stance on Brexit at an EU summit on Wednesday and Thursday. Favour EUR/GBP to 0.8850.

## SEK: Riksbank minutes could hurt

Despite some good news – a clear signal from the Riksbank that it really means to hike rates this time, and the less-bad than anticipated election result -- the krona remains under pressure. Poor economic data (a major downward revision to GDP and yet another weak inflation print) suggests the Riksbank will retain its dovish bias. The minutes from the central bank's September meeting published today is key, with any sign that the Riksbank may delay further beyond the 'December or February' communicated at the policy meeting likely to hit SEK. EUR/SEK could push to the 10.60/62 area this week.

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