

Euro: The only way is up....soon

What could move FX markets this Thursday



USD: Fed Chair candidate Powell to speak on US Treasury Markets

Ahead of Friday's jobs report, one event to watch out for today is a speech by Fed Governor Powell – who is also a leading candidate to take over the helm of the Fed next year. We'll likely see the market-savvy nature of Powell today given that he will be speaking about Treasury Markets. Look for comments in relation to structurally low bond yields and the impact of the Fed balance sheet unwind. DXY to stay anchored around the 93.50 in the absence of any dovish policy talk.

EUR: The markets could move

The spotlight today is on the release of the September ECB minutes (1330 CET). While historically these post-meeting minutes have had a pretty muted impact on EUR markets, this time could be different given:

1. The heightened role of the currency and overall financial conditions in the ECB's policy reaction function
2. The fact that discussions may hint at the Governing Council's QE taper preferences.

On the first point, we suspect the party line will be wariness over additional EUR strength. However, the recent focus on exogenous and endogenous drivers for the currency – and their differing

macro implications – could see the discussions leaning towards acceptance of a strong EUR under certain economic conditions. This small shift in tone would be a giant leap forward for our bullish EUR view.

We doubt there'll be too much in the way of exact details on how the ECB might taper its asset purchases. However, we now mainly see upside risks to the EUR from any policy announcement at the 26 October ECB meeting; the idea of a dovish – or more cautious – unwind of the asset purchase programme is embedded into markets. Signs that tapering could be more 'punchy' than what markets currently expect would lend support to a strong EUR heading into the October ECB meeting. Political risks related to Catalanian independence remain the only catch to long EUR positions right now. Given the limited systemic risks to broader eurozone financial markets, we think any fundamental EUR fallout is unlikely. Instead, were political noise to fade over the coming days or weeks, we would be inclined to enter long EUR positions against the USD, JPY and CHF. For EUR/\$ we wouldn't rule out a move above 1.20 on the prospects of a more aggressive ECB QE taper plan.

GBP: #MaysSpeechInFiveWords... Not Too Helpful For Sterling

#MaysSpeechInFiveWords is currently trending on social media, so here's our take: Not Too Helpful For Sterling. For GBP markets, two channels of political uncertainty have arisen from the Tory Party conference:

1. More confusion over the government's Brexit transition deal strategy – with reports that some senior ministers want it to last for more than two years versus Boris Johnson's stringent 'red lines'; and
2. Ongoing questions over PM May's leadership – where we note that odds of the Prime Minister leaving by year-end have risen in betting market (to around 30%).

While neither is likely to actively weigh on GBP, we are wary that it may limit the effects of any BoE policy-driven upside in the near-term. On that note, we have two BoE speakers to watch out for today – Chief Economist Haldane (18:30 BST) and arch-hawk McCafferty (1700 BST). The key phrase to watch out for is whether this cycle is "*more than just a withdrawal of stimulus*". With markets questioning the three BoE hikes priced in over a 2-3 year horizon, any signals along this line would support short-term UK rates and GBP.