

FX: Abenomics 2.0 to the rescue

Now, that Shinzo Abe's snap election has paid off and another round of Abenomics is around the corner, the big story of the week is ECB meeting



Source: iStockphoto

USD: Tax reforms not as distant as we thought

Equity markets continue to perform well. Growth trends remain supportive, and some modest progress on US tax reform and continuity in Japan politics is also helping. The question this week is what happens to US bond yields? For 3Q17 GDP this Friday, we are above consensus.

We think risks look skewed to the upside here. Be it the positive re-assessment of the US tax reform, suggestions of hawkish John Taylor making it to the Fed or indeed higher Bund yields unlocking the upside for Treasury yields. The majors would prefer to express dollar strength against the JPY and DXY could challenge 94.25.

EUR: Holding up well so far

EUR/USD has held up quite well so far given the continued widening in short-dated interest rate spreads and uncertainty in Spain. The big story this week will be Thursday's ECB meeting, where we look for a bigger cut in ECB tapering – from €60bn to €20-25bn per month – which should trigger a one-off jump in EUR/USD. That could see the EUR/USD back to 1.20, but it may have to

weather some downside first. Below 1.1730 and risks 1.1670.

JPY: Super-majority and Abenomics 2.0

Unlike Theresa May, Shinzo Abe's call for a snap election has paid off, delivering his Liberal Democrat Party (LDP) party two-thirds super-majority in the Lower House. This will allow him to push ahead with the policy agenda of another consumption tax hike in 2019 and potential reforms to the Constitution.

The big win suggests another round of Abenomics, including the likelihood that Kuroda extends his term as Bank of Japan Governor when it ends in April. With the prospect of US tax reform marginally improving, this looks a pretty bullish environment for USD/JPY. Today's dip in USD/JPY may be shallow – just filling the gap to 113.50 left in Asia, before a test of some good resistance at 114.50.

CZK: Election results unlikely to dent bull trend

Despite the meaningful victory of the non-traditional and to a degree populist parties in the Czech parliamentary elections over the weekend, we expect a muted and short-term impact on Czech financial markets, even if the seeming differences between the parties led to early elections. Historically, Czech elections have had limited impact on the Czech Koruna and this time should be no different.

The Czech National Bank (CNB) should remain hawkish given the signs of an overheated economy and the very tight labour market. The more hawkish pace of CNB hikes (compared with what is priced in) coupled with the normalising EUR/CZK forward curve should continue to put gradual downside pressure on EUR/CZK.

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 www.ing.com.