

FX Daily: A vision of Biden?

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📉 USD: Wednesday's price action offers hints of market reaction to a Biden win

That Tuesday's first presidential debate was chaotic is clear. What also seems clear, if betting odds are to be believed, is that President Trump missed an opportunity to close Joe Biden's lead – quite the reverse in fact.

In FX markets, signs of a shift towards Biden saw the JPY options volatility curve – particularly in the crucial 2-month tenor – drop about 0.8 vols, suggesting fears of a contested election were abating and generally coinciding with a weaker dollar and a more pro-risk stance in markets. This assessment of what a post-Trump world could mean for financial markets was clouded yesterday by news that a fourth US stimulus plan could be a going concern after all.

The fact that the House Democrats have delayed voting on their own \$2.2trn bill suggests there is a chance (50-60%) that a cross-party plan can be agreed over the next couple of days. Certainly, we would think risk assets should stay supported until the Mnuchin-Pelosi negotiations have run

their course. Helping the mood today should also be the release of the Sep. Manufacturing PMIs around the world (including the US), where manufacturing seems to remain a bright spot.

Favour DXY to 93.30/50 and potentially to 92.50 were a US stimulus surprisingly agreed.

👆 EUR: Swimming against the ECB and Recovery Fund concerns

EUR/USD has come back bid, along with many pro-cyclical currencies – top performers yesterday being NOK, AUD, CAD in DM space and MXN, ZAR, RUB in EM space.

The ECB clearly doesn't like EUR strength and progress of the EU Recovery fund (EU summit today) will still be a challenge this month. But we think \$ weakness and the global risk environment will win out.

Progress on US stimulus could be enough to take EUR/USD through 1.1750/60 to 1.1810.

➡ GBP: Holding onto gains

GBP has been holding onto recent gains (and helping European FX in general). Expect more volatility today and tomorrow as Brexit negotiations go down to the wire.

A Cable move above 1.2985/3010 certainly removes the fragile tone.

👆 HUF: Another 1-week depo hike on card

We see it likely that Hungary's central bank repeats its stance from last week and hikes the 1-week depo by another 15bp (last week's announcement was at 11:50CET).

This should bring the 1-week depo rate to 0.90%, fully reversing the prior cumulative 30bp of cuts. We expect this to further stabilise HUF versus its CEE peers and lead to the outperformance of the forint versus the region in coming weeks, particularly given the still one-way HUF positioning.

PLN/HUF can target the 79.00 level. PLN should now lag the forint, particularly following the one-off zloty appreciation this Tuesday (likely a function of speculation about IPO flows and hawkish comments from MPC's Gátnar – unlikely to sway the dovish NBP).