

FX Daily: After the washout

FX markets have stabilised but the rise in Covid-19 cases and the prospect of new lockdown measures suggests limited upside potential to cyclical FX



➔ USD: Risks to 4Q20/1Q21 global economic outlook weighing on cyclical FX

FX markets stabilised overnight following the sell-off in cyclical currencies yesterday and US dollar gains across the board. The rise in Covid-19 cases and the prospect of new lockdown measures (albeit likely less severe and more targeted than in spring) hitting the global economy in 4Q20 and 1Q21 suggests limited upside potential to cyclical FX. Coupled with the November US Presidential elections, the outlook for risk assets is likely to be tricky in the coming weeks and months, though we don't see scope for pronounced and long-last USD gains as (a) USD liquidity should not be an issue vs the spring this year (b) the Fed would likely step in should risk sentiment deteriorate further. For DXY, we expect the 94.00 level to be strong resistance this week.

➔ UR: Downside risks to global growth weighing on EUR

With the eurozone being a large open economy levered to global growth, Covid-19 related uncertainty and its impact on the global growth outlook does not bode well for EUR/USD. But with equity markets tentatively stabilising, this suggests EUR/USD staying around the 1.1750 level

today. GBP weathered the storm yesterday largely intact and stayed flat vs EUR given the idiosyncratic nature behind the currency's price action in recent months (UK-EU trade negotiations uncertainty). What will matter more for GBP price action is a speech by Bank of England Governor Andrew Bailey today and any potential hints at the odds of negative interest rates.

📈 SEK: Better growth outlook, but little reaction from Riksbank

The focus is on the Riksbank meeting today. Despite the improving economic data (which should be reflected in an upward revision to the GDP forecast) the inflation outlook remains challenging, meaning that the Riksbank is unlikely to move towards a more hawkish tone. Some uptick in the interest forecast (at the end of the forecast horizon) is possible, but the central bank is likely to continue underscoring the risk associated with Covid-19. Still, the balance of risks is skewed to a modestly higher krona, if we see some minor adjustment in the interest rate forecast higher. EUR/SEK to move below the 10.40 level.

📈 HUF: The NBH meeting a trigger point for forint outperformance

We expect Hungary's forint to rebound after the National Bank of Hungary meeting today as the central bank is likely to surprise with a less dovish tone vs market expectations (ie no hint at further easing justifiable by the downward revision to the GDP forecast). Increasing FX pass through this year in response to Covid-linked cost side pressures / lost revenues also points to more cautious NBH stance today, in order not to trigger further pro-inflationary FX weakness. We expect EUR/HUF to dip towards the 360 level, while within the Central and Eastern European space, HUF should outperform its peers (PLN and CZK)

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