

## FX Daily: Cash parked on the sidelines

The dollar remains in correction mode and the market is watching the news from China regarding the approach to its Covid-19 policy. Today's market focus will be on the US mid-term elections. We expect the Romanian central bank to raise rates by 50bp to 6.75%, which may be the central bank's last move in this hiking cycle



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### ➔ USD: The known unknowns

The dollar remains in corrective mode as investors, very underweight in both equity and bond markets, stand ready to adjust positions on the latest headlines out of China. Here, China's zero-Covid policy represents a 'known unknown' for the market and one where any significant relaxation could unleash a wall of cash parked on the sidelines in dollars. Active investors would not want to be caught out by a year-end rally in risk assets.

Some concrete news on China's Covid policy would probably trigger more of a dollar correction, but until then FX markets will be dragged around by two key factors: central bank policy and energy prices. A recent BIS paper looking at this year's dollar rally picks out those two factors and concludes that, with real rates still negative in many countries, it would be dangerous to be too concerned with the over-tightening of monetary policy.

Fears of over-tightening do not seem to be present in the US currently, where money markets are

continuing to price the Fed cycle higher and later. Perhaps one factor we are underestimating here – and one we highlighted in [our FX Daily last week](#) – is that a more drawn-out Fed tightening cycle is delivering a drop in volatility and a fillip to the carry trade. Certainly, US interest rate volatility has started to drop.

For today, the focus will be on the US mid-term results. We discuss the various scenario outcomes in [this article](#), although the immediate impact on the dollar will be muted ahead of the main event risk this week – October US CPI data on Thursday.

DXY should continue to find support this week below 110.

*Chris Turner*

## ➔ EUR: Staying above parity is no easy task

EUR/USD climbed back above parity yesterday, still driven by a softer dollar and relatively upbeat risk sentiment. In the eurozone, we continued to hear calls for more tightening, with European Central Bank president Christine Lagarde and Governing Council member Francois Villeroy de Galhau both maintaining a hawkish tone. We doubt, however, this is offering idiosyncratic support to the euro at this stage.

Today, the eurozone data calendar includes retail sales for the month of September, which are expected to have climbed on a month-on-month basis. ECB Governing Council member Joachim Nagel is speaking this morning, and we can surely expect more hawkish comments on his side.

While the US inflation report and the mid-term elections are two key risk events for the dollar, macro factors continue to point at a weaker EUR/USD, and we doubt that with the economic uncertainty in the eurozone ahead of the winter and a still hawkish Fed the procyclical EUR/USD will easily remain above parity in the coming weeks.

*Francesco Pesole*

## ➔ GBP: BoE Gilt sales meet lukewarm demand

Lukewarm demand at yesterday's Bank of England 7-20Y Gilt auction saw Gilts selling off and dragging other bond markets with them. Our debt strategy has been pointing out that investor demand is for shorter-dated Gilts and that £6.25bn worth of Gilt auctions later this week will not have helped the BoE's gilt auction. Soft demand at the auction and the subsequent Gilt sell-off did not inordinately hurt sterling, however, which seems to be settling down a little.

For today, the focus will be on some speeches from the BoE's Huw Pill and Catherine Mann. Somewhat surprisingly, the pricing of the BoE cycle does not seem to have moved much since the immediate volatility following last Thursday's Monetary Policy Committee meeting. And the FX market may now be wholly focused on the amount of fiscal restraint coming through on 17 November. We continue to favour the view that GBP/USD rallies over 1.15 are not sustainable.

*Chris Turner*

## ⬆️ CEE: National Bank of Romania to raise rates by 50bp

Today we have September industrial production and retail sales in Hungary on the [calendar](#), and in both cases we expect weaker numbers than in August. Retail sales will also be published in the Czech Republic and the Czech National Bank will release FX intervention data for September, but the main event today is the meeting of the National Bank of Romania (NBR), which is the last one this year.

We [expect](#) a 50bp rate hike to 6.75%, which means a slowdown in the pace of tightening compared to the October meeting. It may also be the last rate hike of this tightening cycle, but we do not rule out an additional 25bp rate hike in January. We think this week's data should confirm that inflation peaked in September, and we should see a lower number for October (INGF: 15.2% year-on-year). Perhaps more important than the rate hike itself will be any hint of an alteration in the tight liquidity management stance. We see little to no chance of this being changed for now, though we still have questions about how the NBR will offset the traditional year-end spending spree of the government.

On the FX side, the Romanian leu has maintained a distance from NBR intervention levels for almost three weeks now and we believe positive global conditions will keep it below 4.89 EUR/RON in recent days and see potential to test new gains as we briefly saw yesterday, supported by solid demand for Romanian government bonds.

*Frantisek Taborsky*

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