

## FX Daily: CEE currencies on a roll

EUR/USD was unimpressed after a quite constructive ECB press conference yesterday. CEE currencies, on the other hand, are looking far more interesting - the Hungarian Forint hit by gyrations in the swap market, the Zloty softening on a seemingly dovish MPC and the RON under pressure on local politics. We may also see another large Russian rate hike today.



### ⬇️ USD: Improving US-China relations supportive of risk .. for today

One of the big disappointments this year has been US-China relations. Joe Biden's arrival in the White House was meant to unwind Donald Trump's trade war and potentially find a way for constructive dialogue. That has not been the case. And domestic challenges in China plus the shift in policy to 'common prosperity' have seen Chinese equities serially underperform this year. Despite all this, the PBOC has never fixed USD/CNY above 6.50 and the trade-weighted Renmimbi is on its highs. We suspect this has to do with the Chinese authorities prioritising lower import costs as it they seek to help SMEs under margin pressure. The proposition that China still wants a strong Renminbi to fight higher commodity prices is supported by news yesterday that China has sold oil from its strategic stockpiles for the first time. This follows sales from its industrial metal stockpile earlier this summer.

We mention all this today because of the news of the first Biden-Xi phone call since February. We have seen USD/CNH go offered on the news and any surprise improvement/reset in US-China relations could see USD/CNY move further away from the key 6.50 threshold. Such a move is typically positive for pro-cyclical FX and slightly negative for the dollar - hence our down arrow in the dollar today.

The US data calendar is light today, just August PPI, and we favour DXY making a move back towards the lower end of its 92.00-92.50 trading range.

## ⬆️ EUR: Non-plussed by a slightly upbeat ECB

We were a little surprised to see EUR/USD edge lower yesterday despite a more upbeat ECB - including an upward revision to the 2022 inflation forecast and a moderate 'recalibration' of its PEPP programme. Read Carsten Brzeski's take on it [here](#). The bond market seemed to read it dovishly as well (perhaps hawkish expectations had run ahead of themselves?) with Italian BTPs enjoying a strong rally.

Yet President Lagarde has raised expectations that December will be a big meeting - with all its programmes up for review. This suggests that any encouraging Eurozone activity data or high inflation prints over coming months could ripple through rates markets and support the EUR. This helps us in our core call of EUR/USD trading a 1.17-1.20 range into year-end.

For today, a slightly pro-risk mood could see EUR/USD edge back to the 1.1850/70 area. Elsewhere, headline inflation in Norway has come in on the firm side and will support the view that Norges Bank starts its tightening cycle on September 23rd. EUR/NOK could break below 10.20 and USD/NOK below 8.60.

In terms of events today, look out for a Lagarde speech at 1130CET at the Eurogroup press conference. No doubt she'll focus on the need to keep fiscal policy loose and to get recovery fund disbursements made as quickly as possible.

## ➡️ GBP: Short-end rates creep higher

While EUR rates edged lower at yesterday's ECB meeting, GBP rates actually nudged higher. Remarks from Governor Bailey that conditions have been met to start tightening (even though a repeat of the August BoE meeting) seem to be resonating. Today's July GDP data was slightly disappointing, however, and on balance we see nothing to take EUR/GBP out of a well-worn 0.8500-0.8600 trading range.

## ➡️ CEE: Much ado about something

Volatility remains quite subdued in the G10 space, but in the CEE region local stories are starting to make their mark.

Let's start with the topic of monetary normalisation. Top of the agenda today is the Russian CBR rate meeting. Our Dmitry Dolgin is looking for a 25bp hike in the base rate to 6.75%, but notes that the worrying composition of the August CPI reading could easily see the [CBR hiking 50bp today](#). A CBR taking no chances with inflation has been supportive of flows into the local OFZ bond market and, with RUB implied yields near 6.70%, the RUB should continue to see the benefits of being a high quality, high yielder.

On the same topic of monetary policy, our Polish team had a good call in that the Polish MPC has not been rushed into tighter policy. Yet there were signs in Governor Glapinski's press conference yesterday that the MPC could be delivering on our call of a first hike in November. The correction in EUR/PLN from 4.50 may run out of steam at 4.55 and, as we outline in this month's edition of FX talking, our team sees a November rate hike sending EUR/PLN to 4.43 in three months' time.

Moving away from monetary policy, the much-backed Forint has had a tough week on the back of collapsing HUF implied yields. 1m HUF implied yields are now -0.40%. It is a complex story, but it seems that there is too much HUF liquidity out there and banks do not want excess HUF balances over quarter-end. Indeed, this is not a new phenomenon to HUF money markets. The NBH this week has said that these low implied yields are a problem and should be trading more in line with monetary policy goals (base rate 1.50%) and it will address this through its regular EUR tenders in late September. Here the market will focus on: a) the size of the EUR tenders - unlimited? and b) the rate - will they be conducted at the base rate of 1.50%? The first of these EUR tenders is not until September 22nd and warns that EUR/HUF could trade to 353/355 if short-dated HUF implied yields remain in negative territory.

And finally politics continues to play a role in Romania where the government faces a confidence vote. Typically Romania's NBR is averse to independent and unplanned RON weakness and typically uses liquidity tools to slow/stall unwanted RON depreciation. We would expect that to be the case now as well, and Valentin Tataru sees EUR/RON trading back to 4.92 by the end of September.

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