

FX Daily: China stimulus gives EMFX a lift

The dollar was a little weaker yesterday as Chinese monetary stimulus coursed through commodity markets and gave many EM currencies a lift. The jury is out on whether this China stimulus story is an enduring one for global FX. However, evidence of a US slowdown continues to accrue and investors do seem to have shifted to a sell-dollar mindset



Pan Gongsheng, Governor of the People's Bank of China, holds a press conference in Beijing to unveil China's latest economic stimulus plans

➔ USD: Slowdown evidence builds

Chinese stimulus was the top story in FX markets yesterday. Metals markets rallied and the currencies of the emerging market commodity exporters in Latin America and South Africa had a good day. The jury is out on whether this theme can be maintained. For example, were Chinese monetary stimulus backed up with some fiscal stimulus (consumption vouchers?) then we would have a little more confidence that these short-term trends could follow through. Additionally, we are starting to see USD/CNH trade below USD/CNY – something seen very rarely over the last couple of years. If USD/CNH breaks with momentum below 7.00, we think it would be broadly supportive of global EM currencies and help tilt the dollar lower.

In a surprise move yesterday, US consumer confidence was **much weaker than expected**. The market is very sensitive to this theme since the US consumer has been so resilient for so long. There is only August new home sales data on the US calendar today, but we suspect the dollar can continue to trade on the soft side into the main event of the week, which is Friday's core PCE

deflator for August. A low reading of say 0.1% month-on-month could deliver a leg lower in the dollar.

Expect DXY to remain contained in a 100.50-101.00 range.

Chris Turner

➔ EUR: Saved by China

After a vulnerable start to the week, EUR/USD has come back bid. Efforts to reflate China have no doubt played a role – as did the soft US consumer confidence yesterday. There is very little on the European calendar today, so EUR/USD range trading looks likely. But the fact that EUR/USD is holding above 1.1100 is encouraging for modest EUR/USD bulls like ourselves.

Elsewhere, we sent out a [Swiss National Bank](#) (SNB) preview yesterday. Our house call is a 25bp rather than a 50bp SNB cut – primarily because the SNB has such little room to manoeuvre on the downside. Given that the market is pricing a 37bp cut this Thursday, EUR/CHF could sell off if we're right with our 25bp call. Perhaps the only way the SNB can verbally turn EUR/CHF now is by suggesting that there is no floor for the SNB policy rate – and by implication that rates could go negative again. We very much doubt the SNB is prepared to do that and therefore see EUR/CHF trading towards the lower end of a 0.93-0.95 range.

Chris Turner

➔ SEK: Riksbank to stay predictably dovish

Sweden's Riksbank is widely expected to cut rates by another 25bp today. As discussed in our meeting preview, Governor Erik Thedeen and his colleagues have been giving rather explicit forward guidance to markets, signalling three rate cuts by the end of the year.

Despite some modest speculation for a 50bp reduction in one of those meetings, we think that signs of stabilisation in Sweden's economic outlook should discourage moves larger than 25bp.

Markets are fully pricing in 25bp today and probably a reiteration of the recent pledge to keep cutting this year. Ultimately, SEK should remain more sensitive to external factors, as the rate-cutting cycle is priced in and the Riksbank seems on a stable and predictable path. EUR/SEK can remain under some pressure and test 11.20 in the near term.

Francesco Pesole

⬆️ CZK: Next year's CNB picture is unclear

After yesterday's 25bp rate cut [in Hungary](#), we expect the same move [in the Czech Republic](#) today from the Czech National Bank. Today's meeting is without a new forecast and the board will only discuss an internal update. However, communication in recent weeks points to a 25bp rate cut to 4.25%. So the focus will be on forward guidance for the next meeting and especially next year. Inflation in August was above the CNB's forecast by 0.4pp, which may see the governor stay on the hawkish side again.

The market expects three 25bp rate cuts by the end of this year and a terminal rate next year at 2.75%. This is below our economists' forecasts. However, this is still a possible scenario for this

year, while next year goes against the central bank's communication of the end of the cycle above the neutral rate of 3% for now. The market is thus strongly on the dovish side, but in the current conditions we see it difficult to go against the market at the moment in the rates space but remain positive on the CZK, which we think will benefit the most from CNB's hawkishness. EUR/CZK jumped lower yesterday and is approaching 25.050. We believe the CNB can push EUR/CZK below 25.00 today.

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