

## FX Daily: Diverging Asian stocks into a data-packed week

While Chinese equities are experiencing an unprecedented boom following stimulus measures, Japanese stocks are down sharply after a surprise new Prime Minister nomination. The net effect is a gently offered dollar at the start of a data-packed week. We expect soft payrolls on Friday adding pressure on USD, but lower eurozone CPI may prevent a EUR rally



### ➔ USD: Downside risks from data this week

China's steps to support the housing and stock market have led to a rush to buy Chinese stocks this morning, ahead of the National Day 1-7 October holiday. The CSI index is up 7%, the Hang Seng 3% – and that is translating into stronger China-proxy Aussie and Kiwi dollars, along with a generally soft USD as safe-haven demand wanes.

Another big development in Asia has been the surprise victory of Shigeru Ishiba in the Liberal Democratic Party primaries. The Nikkei is trading some 5% in the red as markets had to pare dovish Bank of Japan expectations linked with the other candidate (Sanae Takaichi), who was associated with larger stimulus. Ishiba's recent comments pointed to a greater focus on preventing

another inflationary experience in Japan and this makes us more confident about our call for one more Bank of Japan hike before the end of the year. The yen is moderately stronger this morning, and USD/JPY may well re-test 140.0 depending on US data developments this week.

Looking at this week's busy [US calendar](#), we'll start tomorrow with the key JOLTS jobs openings, which surprised on the downside last month, followed by ISM manufacturing, which should keep hovering around the 47-48 level. Regional surveys also point to small changes in the ISM services index (Thursday), which remains in expansionary territory.

The biggest binary event will be Friday's jobs report. Our economist expects a softer payroll read (115k) relative to consensus (146k) and also an increase in the unemployment rate to 4.3% against expectations for a flattening at 4.2%. The greater focus of the Federal Reserve on the employment side of its mandate means high sensitivity of the market to the details of the release. If we are right with our call for a tick higher in unemployment, expect a softer dollar as markets stick to expectations for a half-point Fed cut in either November or December.

One more event to keep an eye on is tomorrow's TV debate of the two US vice-presidential candidates JD Vance and Tim Waltz. This is the last chance for either campaign to attract voters in a debate as Donald Trump has ruled out another face-off with Kamala Harris. Incidentally, both Vance and Waltz have had a rather important role in their respective campaigns, so polls will be monitored closely later this week to gauge any impact, especially on Midwestern swing states. The PredictIt index currently sees Kamala Harris ahead 56-47 to win the election in November.

*Francesco Pesole*

## ➔ EUR: Inflation can cement ECB cut bets

French and Spanish inflation figures surprised on the downside on Friday, coming in at 1.2% and 1.5% respectively. Spanish core CPI slowed from 2.7% to 2.4% despite consensus views for a re-acceleration. That is helping explain the euro's muted reaction to China's stock rally this morning, as markets are almost fully pricing in a 25bp European Central Bank rate cut in October, due to both those lower inflation prints and a [Reuters report](#) suggesting Governing Council doves are ramping up pressure to stay keep easing policy.

What appears clear from the latest off-meeting communication is that the hawk-dove factions are at a recent high within the ECB. Ultimately, data should be the tie-breaker for an October cut, so expect this morning's German CPI and tomorrow's eurozone-wide figures to trigger some EUR moves.

We may also get some clues from today's speech from ECB President Christine Lagarde at the EU Parliament. We have a number of hawkish and dovish members speaking later this week, including Isabel Schnabel and Philip Lane. If we end the week with slower-than-expected eurozone inflation and somewhat weaker US payrolls figures endorsing a 50bp Fed cut, then expect the euro to be one of the laggards in a weak USD environment as markets cement bets that the ECB will continue cutting in October.

Another short-term move to 1.1200 is possible in EUR/USD on the back of some USD weakness, but unless we see surprisingly strong eurozone inflation, a big break higher may not be on the cards. We favour a stable 1.11-1.12 trading range in the first half of October.

Francesco Pesole

## ➔ GBP: Staying strong for now

The pound's recent strength has partly relied on the "no news is good news" narrative, as quiet calendars allowed markets to look elsewhere for easing bets while happily keeping the Bank of England in the group of relatively hawkish outliers.

We remain somewhat concerned that the pound will soon face a correction as UK figures start to point to more urgency for easing, although this week may just be too early for that. Second-quarter GDP was revised slightly lower to 0.5% quarter-on-quarter this morning, but there isn't a major UK release until the 15 October jobs figures, with only the partial exception of the Bank of England's Decision Maker Panel survey.

With that in mind, together with the risk of eurozone inflation cementing ECB easing bets, EUR/GBP will likely face a bit more downside risk over the coming days and may well test the 0.8300 support.

Francesco Pesole

## ➔ CEE: NBP and NBR to discuss rate cuts

We saw two central bank decisions last week and will see two more this week, plus some inflation numbers. Even so, the focus remains on the global story and US labour data.

September inflation in Poland will be released today. Our economists are expecting a jump from 4.3% to 4.8% year-on-year, slightly below market expectations, but risks point upwards. Tomorrow across the region we will see PMIs for September and similar to Germany, we expect sentiment to deteriorate here. In the Czech Republic, the final second-quarter GDP numbers and the state budget will be released.

On Wednesday, the National Bank of Poland will meet and we expect a no-change decision to keep rates at 5.75%. A day later, as always, the focus will be on the Governor's press conference and commentary on the timing of rate cuts likely in the first half of next year. Also on Thursday, Turkey will release its September inflation data. The base effect has been pushing inflation down for the last two months, and we expect the same again with a drop from 52.0% to 48.3% YoY, which is the market consensus.

The National Bank of Romania meets on Friday and our economists expect rates to remain unchanged following two rate cuts. However, surveys are mixed and the weak economy and falling inflation increase the chance of another rate cut from the current 6.50%. Hungary will also release industrial production for August on Friday.

CEE FX is trying to stabilise after the sell-off in recent days. Local rates are also struggling to keep pace with the rally in core rates after Friday's data. However, EUR/HUF continues to move up towards 397 as HUF rates remain the only ones in the region outperforming core rates, resulting in a falling rate differential. The EUR/HUF levels match the highs from the first half of September and we could find some support here, but we remain rather bearish on HUF.

On the other hand, we believe for now that the market has no reason to go to 400 EUR/HUF. EUR/PLN offers attractive levels ahead of the inflation print and the central bank this week – and

given that the market is already on the dovish side, we believe that this week should be supportive for EUR/PLN going back to 4.260.

*Frantisek Taborsky*

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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