

FX Daily: Dollar hegemony intact

It looks like Donald Trump is edging ahead in opinion polls – although the outcome of next week's election remains a toss-up given the polling margin of error. Financial markets, however, seem to be pricing a clean Republican sweep. This week has a jam-packed data calendar and we see little to challenge the dollar's dominance until Friday's US jobs report



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USD: Dollar to hold gains through the week

The DXY dollar index is back at its strongest level since early August and one could easily forget that the Fed had started its easing cycle with a surprisingly large 50bp rate cut in September. Driving this dollar strength has been the macro divergence story (largely driven by a bearish/dovish re-assessment of the eurozone) and investors seemingly positioning for Republican success next week. On the latter, the latest polls suggest marginal swings towards Donald Trump, though his lead in the key swing states is still within the polling weighted-average margin of error in the 4-5% area. Please see [here](#) for all our US election analysis.

Regarding the macro divergence story, we doubt this week's US data will be enough to knock the dollar substantially lower. This week will focus on jobs data, price data and a broad look at activity in the first release of US third-quarter GDP data on Wednesday. On jobs, job opening JOLTS data on

Tuesday and the October payrolls report on Friday could come in a little softer than expected – although hurricanes may have played a role here and investors may not overreact to soft numbers.

On price data, Thursday's release of the September core PCE price data could show an unwelcome 0.3% MoM reading. And when it comes to broader activity, most expect the US to have posted a very decent 3%+ QoQ annualised GDP on Thursday, again led by strong consumption. Even though we strongly favour the Fed cutting two more times this year, this week's data may not substantially alter the pricing of just 39bp of further Fed easing this year.

Wednesday also sees the US Treasury announce its quarterly refunding plans. So far it seems that October's run-up in US Treasury yields has been largely driven by growth and rate expectations, not fiscal concerns. And we would imagine the US Treasury would like to keep a low profile with this announcement ahead of elections next week.

While acknowledging that the dollar has come a long way very quickly this month, it is hard to see the dollar – yet – reversing those gains. This means DXY looks to stay bid in the 104-105 range for now.

Chris Turner

➔ EUR: Lower oil prices are some good news

The euro has had a torrid month, but at least [today's drop in oil prices](#) should be welcome. The problem, however, for EUR/USD is that rate differentials continue to widen. The two-year swap differential has now pushed out to 158bp – the widest since April this year. We've discussed the US data above, but the eurozone has a busy week too.

At the top of the agenda will be Wednesday's release of third-quarter GDP data. This could show Germany entering a shallow technical recession and the eurozone continuing to grow at a weak 0.2% QoQ. That data is quickly followed up by the flash CPI release for October, where headline inflation is expected to stay under 2.0% YoY and core is expected to have dropped to 2.6% from 2.7%. None of this should change the market's mindset that the ECB has shifted to a more dovish policy and wants to get rates down to neutral as quickly as possible.

The ESTR curve continues to price in a 35bp rate cut at the ECB meeting in December. And this could easily swing towards 50bp should soft eurozone data or a US Republican victory (and protectionism) materialise.

Perhaps the best to be expected of EUR/USD now is some more consolidation in the 1.0765-1.0850 range.

Chris Turner

➔ JPY: LDP loses majority

The weekend election in Japan saw the Liberal Democratic Party (LDP) lose its ruling majority in parliament for the first time since 2009. The vote seems to be a sign of diffidence from the electorate in response to a series of LDP funding scandals. While the LDP still commands the largest number of votes in parliament it now seems there will be a period of uncertainty as political parties try to horse-trade into power. Presumably, the political uncertainty may weigh on

corporate investment decisions, though some argue that whoever takes power, some increased fiscal stimulus could be coming and that's why the Nikkei 225 rallied 1.8% overnight.

More immediate for the yen will be Thursday's Bank of Japan meeting. The market sees very little chance of a rate hike, although at ING we are [forecasting a hike in December](#). With volatility likely to rise further into next week (exactly the wrong conditions for the carry trade), we do not favour chasing USD/JPY higher from these levels. Let's see whether USD/JPY today closes above or stalls at some key resistance near 153.50.

Chris Turner

➔ CEE: More pain at least until the US elections

The region should be very quiet in the first half of the week and more interesting only in the second half. Moreover, the Czech market is closed today for a public holiday.

On Wednesday, we get flash GDP for the third quarter in the Czech Republic and Hungary, the first numbers in the region. While in the Czech Republic, we should see some improvement from the second quarter with an estimate of 0.5% QoQ and 1.6% YoY, close to expectations, in Hungary we expect a deterioration with -0.4% QoQ and 0.1% YoY suggesting a return to technical recession with the most pessimistic estimate in the market.

On Thursday, we will get flash headline inflation in Poland for October, which we estimate rose from 4.9% to 5.1% YoY, a tenth above market expectations, mainly due to higher fuel and food prices.

PMIs for the Czech Republic, Hungary and other parts of the region will be released on Friday. Beyond the calendar, Thursday marks the start of the Czech National Bank blackout period ahead of the November meeting. We saw the first statements last week and can expect more these days. For now, the tone suggests a dovish direction despite market pricing and higher inflation.

Although the global market stabilised at the end of last week, CEE currencies remain under pressure. We don't expect much to change on this until the US election, but some reversal or stabilisation in EUR/USD could provide some ground under the feet of CEE currencies. The main focus remains on EUR/HUF, which touched 404 on Friday, new local highs, and rates saw another round of selling. Although the market has priced out most of the rate cuts off the curve, there is still 40bp left in the second half of next year, which is also coming under pressure, implying further pain for the HUF. Our preference thus remains unchanged with a bearish view on the region with CZK outperforming PLN and HUF.

Frantisek Taborsky

Authors

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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