

FX Daily: EMFX surfs in a sea of green

It seems investors are starting to think that the Fed is done with rate hikes and are now starting to reduce underweight positions in risk assets, including emerging market currencies. This is dollar negative. Today's US jobs data will be a key determinant of whether this week's new trend has legs or will be quashed by strong hiring or wage numbers



Today's US jobs data will be key in determining whether this week's risk-positive trend has further room to run

📉 USD: Will NFP can feed into the Fed pause narrative?

European investors face a sea of green as they survey global equity markets this morning. Decent 1-2% rallies in global equity benchmarks have been seen right through Europe, the US and Asia. Underpinning that move undoubtedly has been the drop in US rates, where investors are shifting away from the higher-for-longer Fed narrative which dominated in September and October. They now seem to be exploring the Fed pause/Fed peak story. For reference, pricing of 1m OIS USD rates in two years' time rose from just above 3% in June to a peak of 4.75% last month and has since dropped back to 4.17%.

The move in rates has surely seen investors scale back some paid USD rates/long dollar positions and prompted an unwind of some favourite short currency positions in the EM and commodity space. That is why we think the Australian dollar is doing so well and we continue to see upside for

a relative value trade in the region, long AUD/CNH. We also note with interest a big drop in USD/KRW overnight. The Korean won typically has a high beta on global equities (but not an attractive yield) and its sharp rally is a good barometer for the mood in the market. With Korean FX reserves falling for a third month in a row it seems Korean FX authorities have been supplying the market with FX liquidity, as have the likes of China and India – presumably along with Japan shortly too. We think the drop in USD/KRW helps define a broadly risk-on, soft dollar environment today.

Whether this environment has further to run will be determined by today's October US jobs data. Despite the ridiculous inverse correlation with ADP (which might point to a +350k NFP number today) consensus is around +170/180k. Investors will also want to see whether last month's +336k figure gets revised lower. Consensus also sees a 0.3% month-on-month average earnings figure, but that should still bring the year-on-year down to 4.0%, the lowest since June 2021.

Assuming no upside surprises today, we favour the dollar handing back a little further of its gains, especially against the high yielders (e.g., Mexico and Hungary) given the renewed interest in the carry trade. DXY could drop to the 105.50/55 area today as long as the US jobs data is not too strong.

Chris Turner

➔ EUR: The market has closed the door on further ECB hikes

Overnight, the European Central Bank's Isabel Schnabel said the ECB cannot close the door on further rate hikes, citing fragile inflation expectations and the risk of more geo-political supply shocks. However, the market has priced out any further rate hikes and is firmly looking at the 2024 easing cycle. This means that despite lower US rates recently, two-year EUR:USD swap differentials have not narrowed meaningfully and probably explains why EUR/USD is struggling to take advantage of the softer dollar environment. For reference, EUR/AUD has fallen 1% this week and macro traders will be looking for a big move lower here when they become confident of bullish steepening in the US curve. Given global conditions, however, we would favour EUR/USD towards the 1.0675/1.0700 today area unless US jobs surprise on the upside.

Chris Turner

In Sweden, the Riksbank will release FX hedging figures for the week 16-20 October this morning. FX sales numbers have been quite volatile and declined sharply from nearly USD 1bn to around USD 450mn total in last Friday's report. We expect another uptick in FX sales today on the back of SEK underperformance in the week 16-20 October, which we think pushed the Riksbank to increase interventionism in the FX market. High FX sales are a SEK negative, and can favour another leg higher in EUR/SEK: we now see risks skewed to 11.85-11.90 in the near term.

Francesco Pesole

⬆️ GBP: Forward guidance returns. Is the market listening?

Yesterday's Bank of England (BoE) [6-3 vote for unchanged rates](#) came as no surprise. What was a surprise was the re-introduction of forward guidance – i.e., that 'monetary policy is likely to need to be restrictive for an extended period of time'. Clearly, the BoE is trying to prevent the premature easing of financial conditions which would be inconsistent with policy still threatening a further

hike. Arguably, their intervention here did have some impact on markets where the Sonia Dec 25 futures contract – which was briefly up 16 ticks on the day – only ended up 11 ticks. This is in an environment of softer money market rates globally.

Investors know that forward guidance is used as a tool by central bankers (remember the Fed in 2021 saying that rates would stay at zero until 2024?) and it looks like the next nine months will be a game of cat and mouse as investors push for rate cuts and the BoE fights back. We think data will probably support investors and see upside risks to our year-end EUR/GBP forecast of 0.8700. GBP/USD should do a little better today in the risk-positive environment. Favour a test of 1.2250 above which 1.2335 opens up.

Chris Turner

CZK: CNB postpones start of the cutting cycle

The Czech National Bank (CNB) [decided yesterday](#) to leave interest rates unchanged. At the same time, it presented a new forecast showing a weaker economy, lower inflation, a weaker koruna and also faster rate cuts next year. With the market expecting a rate cut, the central bank's decision led to an upward repricing of the short end of the curve, however the belly and end of the curve ended lower at the end of the day. The CZK is getting mixed signals, while the 2y interest rate differential ended only slightly higher in favour of the CZK at the end of the day. We are likely to see further pressures for CZK appreciation in the 24.400-24.500 EUR/CZK range today but we expect the pressure for a weaker CZK to return soon with more incoming data confirming a weak economy and triggering new bets on CNB rate cuts.

Frantisek Taborsky

Author

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s),

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.