

FX Daily: Fed's hawkish hold prolongs late cycle dollar strength

A hawkish hold from the Fed has seen the US yield curve shift 15bp higher and the dollar strengthen. Today, the highlight will be central bank policy meetings in four of the G10 nations, with 25bp rate hikes likely in all. There will also be much focus on Turkey and whether the path to policy orthodoxy sees a 500bp rate hike today



USD: Markets are being forward guided

The stand out of yesterday's [communication from the Federal Reserve](#) was scaling back the expectations of its 2024 easing cycle. Prior projections of 100bp of easing were slashed to just 50bp. The clear message coming through from the Fed was that it remains uncertain whether the terminal rate has yet been reached and that it would be premature to consider easing. A few hours before the Fed decision, minutes from the last Bank of Canada (BoC) decision suggested the BoC was holding out for one more hike in its projections primarily to deter easing expectations from building prematurely. Clearly, forward guidance is at work.

Markets were not completely happy to be forward-guided, however, and 1m USD OIS swap rates priced 15-18 months forward only rose 12-14bp despite the Fed raising its end 2024 Fed Funds forecast by 50bp. However, the whole US yield curve has now shifted 15bp higher and has supported the dollar across the board. As we discussed in our [Fed review](#), we felt higher US rates would weigh on commodity and 'growth' currencies. Overnight, the Australian dollar has softened

the most.

This hawkish hold may well keep the dollar bid into October and it will have to be softer US activity data – particularly a rise in jobless claims or a decline in consumer confidence and retail sales – which will be required to soften up the dollar. Dollar bears will get no joy from the Fed.

With US yields firm and US rate volatility sinking again, USD/JPY will be on the front line of this period of dollar strength. Expect to hear more verbal intervention from Tokyo and we suspect the trigger will be pulled on the approach to 150. Expect DXY to grind up to 106.

Chris Turner

📉 EUR: Looking vulnerable plus interest in Switzerland and Turkey

EUR/USD took its time, but ultimately the Fed's hawkish message resonated with the US yield curve and EUR/USD slumped back to the recent lows. Until this late cycle dollar strength breaks, EUR/USD remains vulnerable – especially since it does not enjoy any support from extreme undervaluation according to our medium-term fair value models. 1.0600/1.0610 looks like the last line of support before 1.0500, which could be the direction of travel should the Bank of England (BoE) fail to hike today and GBP/USD break sharply lower. On the calendar today is the European Central Bank's Isabel Schnabel, who will surely market the risks of another ECB rate hike. However, tomorrow sees the release of flash European PMIs for September, another negative event risk for the euro.

Elsewhere, we have a Swiss National Bank (SNB) meeting at 09:30 am CET. A 25bp hike in the policy rate to 2.00% is widely expected. Also expected is commentary that the SNB will be using the Swiss franc to meet its monetary goals and that it will continue to sell FX. The SNB sold CHF32 billion of FX in the first quarter of this year to keep the Swiss franc strong, and second-quarter data is out on the 30th September. In what should be a familiar story now, the SNB is trying to keep the real franc stable for monetary purposes, which in practice means engineering a stronger nominal Swiss franc. In fact, the CHF nominal trade-weighted index is +7% year-on-year. Given the strong dollar, it seems the SNB will have to try harder to get EUR/CHF lower to deliver that nominal CHF strength. Expect EUR/CHF to stay offered near 0.95 multi-month and any rallies to prove fleeting.

There will be much attention in Turkey today. A 500bp hike in the policy rate is expected today to 30.00% – still well below inflation. A large hike would be another tick in the box of policy orthodoxy and would be another positive for Turkish asset markets, where sovereign risk premia (represented through the 5 year USD CDS) is at the narrowest levels of the year.

Chris Turner

➡ GBP: The case for a BoE hike

The dramatic repricing of the Bank of England tightening cycle has taken its toll on sterling over recent weeks. The market now only prices a 47% chance of a 25bp rate hike today. As our UK economist James Smith highlighted in his [CPI reaction piece yesterday](#), the BoE may not be swayed by some of the volatile factors that drove CPI lower in August and instead, continued high wage growth may be the swing factor that sees it deliver a 25bp hike after all. That is ING's call.

A hike would provide GBP/USD with some much-needed support. If not the path to 1.2100 would be open. Equally, EUR/GBP would test the July high at 0.87 were the BoE to surprise with a pause.

Chris Turner

📈 Scandies: Two hikes, and a crucial moment for SEK

There is a lot of action in Scandinavia this morning, with the Riksbank in Sweden and Norges Bank in Norway both expected to hike rates and announce new rate path forecasts.

The Riksbank will go first at 09:30 am CET. Markets are fully pricing in a 25bp hike, which is also the consensus view and our house call. We previewed this meeting in our recent [Swedish economic and FX update](#). We discussed how, despite the deterioration in domestic economic conditions and encouraging signs of decelerating inflation, there is still a compelling narrative to hike today.

The weakness of the Swedish krona is a major reason why the Riksbank cannot underdeliver compared to market expectations. Markets have an extra 14bp priced in after this hike, meaning that the new rate projections will probably need to show another 25bp hike for the krona to rebound (current projections assume we have reached the peak). The risks are that some Riksbank members focus on the economic and inflation slowdown and oppose a rate hike or an upward revision in the rate path. This happened back in April and paved the way for a long period of SEK depreciation. Our base case is that the Riksbank will not make the same mistake again and deliver a convincingly hawkish and FX-supportive hike today. We see EUR/SEK drop to the 11.77 mark in a hawkish scenario today. A dovish surprise would make a rally to above 12.00 levels very feasible.

In Norway, Norges Bank (10:00 am CET) is also widely expected to hike by 25bp, in line with its August guidance. As highlighted in our [Norges Bank preview](#), oil prices are higher and NOK is a bit stronger than the Bank projected, but inflation slowed more than expected in August and we don't think policymakers will pre-commit to a November hike. However, there are good chances they will at least signal the risk of another rate increase via a revision of the rate projections.

The outcome should be broadly supportive for NOK, but we still think the krone will respond primarily to US activity data and the general market environment moving ahead. In the near term, the 11.50 level in EUR/NOK may continue to be the gravity level.

Francesco Pesole

Authors

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 <http://www.ing.com>.