

FX Daily: Focus on the Forint

After Monday's re-pricing of tightening cycles around the world, Tuesday looks to be settling into quieter, more pro-risk trading conditions. With the CNH finding some good support, commodity FX should continue to perform well. Look out for a host of central bank speakers today and also a rate meeting in Hungary, where the Forint could find support



The National Bank of Hungary

➔ USD: A pause for breath

Monday's trading session was dominated by a dramatic re-pricing at the short-end of interest rate curves, on the view that central banks would have to start tightening earlier and harder than previously expected. UK rates led the move, although many followed. In Australia, the market now prices in 40bp of tightening over the next 12 months - this is despite the RBA telling us that rates will be unchanged until 2024. Clearly, forward guidance is being heavily challenged. And in the RBA's case, the focus is now on whether it can control the April 2024 government bond to a yield of 0.10%, which is its policy target. Yields there are now trading 0.16%.

Despite the surge in energy prices, 3Q earnings results are still largely coming in on the positive side and keeping equities supported. Overnight we have seen a greater interest in the Renminbi, where USD/CNH is trading below 6.40 for the first time since June. We will have to monitor portfolio

data to see whether global equity investors are fishing for some cheap Chinese stocks.

Supported risk and a quiet US calendar are seeing the dollar hand back some of its recent gains. The lack of Fed speakers today provides a warning sign that the dollar could correct a little further, particularly against the high yielders and energy exporters. For example, yesterday's BoC quarterly outlook survey of businesses showed very high capex intentions in Canada - a function of high energy prices and is supportive for Canadian growth and local FX.

USD/JPY has been the preferred axis to play the energy crunch/early tightening story and we would expect any correction here to find support before the 113.00/113.20 area, before the 115.00 level is tested. For DXY, we would like to see the 93.50 area holding today to maintain the near-term bullish tone.

➔ EUR: Short term correction underway

Like many interest rate curves, the Eurozone money market curve has steepened over the last week with the market now pricing 30bp of ECB tightening over the next two years - that's a 10bp adjustment over the last week. ECB communication has done little to support that move. Today we will hear from quite a few ECB speakers, with the highlight being Lane at 16CET. EUR/USD is opening the day on the bid side, but faces good resistance in the 1.1660/1680 area. We would be surprised if EUR/USD manages to close the day above 1.1700 - which would undermine our bearish near term EUR/USD view.

Elsewhere, we note that the SEK has been trading well over recent weeks, despite a mixed global growth view. One background factor which may be of interest is the huge Volvo IPO taking place this month. Its stock will start trading on Stockholm's Nasdaq exchange at the end of this month. Reading through the prospectus, it seems that many of the Swedish local asset managers have pre-committed to the IPO, but depending on demand there may be EUR1-2bn of Volvo SEK-denominated shares for everyone else - including overseas asset managers and retail. The settlement date for the IPO is November 1st, so let's see if there is SEK demand later this month.

➔ GBP: How to trade the policy error?

BoE tightening expectations have surged, with the first hike now fully priced for the November 4th meeting. After some reasonably clear comments from [Andrew Bailey at the weekend](#), it seems unlikely that any of the three BoE speakers today (Mann, Pill, Bailey) will substantially push back against the market pricing of an early hike.

The shape of the UK money market curve points to a 'policy error' - in other words that the BoE hikes aggressively in 2021 and 2022 only to cut in 23-25. How to trade GBP? Well, this seems a far cry from 1992 when the BoE was hiking rates to keep GBP in ERM II. And we should probably also take our lead from UK equity markets. The FTSE has actually out-performed Eurostoxx over the last four weeks (large weighting to the miners helps hear). But probably not until UK equities take a decisive move lower should we expect GBP to follow suit. We would still have a bias for EUR/GBP to trade to 0.8400, while Cable stalls around 1.3800 as the strong dollar trend wins out.

⬆️ HUF: NBH to revert to 30bp hikes

The National Bank of Hungary (NBH) meets to set interest rates today. A 15bp rate hike in their policy base rate is widely expected to 1.80%. This would be in keeping with the 15bp increments

the NBH communicated at its September meeting. Yet ING's Peter Virovacz believes there is a risk that the NBH reverts to 30bp increments of tightening. Driving that view is: i) growth coming in above the NBH's forecasts, ii) inflation coming in above the NBH's forecasts and iii) the forint weakening and thus undermining the desire for tighter financial conditions.

There is also the issue that we have seen a big 75bp hike in the Czech Republic and an early hike from Romania. Some banks in the region acknowledge the 'fluidity' of capital and want to keep the yields on their currencies competitive.

A 30bp hike would be a surprise and should help the forint on the view that the NBH can be flexible. The NBH could accompany this with a further adjustment in FX swap programmes to reduce HUF liquidity in the market. With EUR/\$ slightly bid today, a surprise 30bp hike could carry EUR/HUF back to the 358 area.

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