

FX Daily: GBP spoils the party

We all knew (and had a kink in our EUR/GBP forecasts) that September was going to be a difficult month for GBP – but not this difficult



Source: iStock

📈 USD: Risk assets still look fragile

US equities closed near their lows for the week yesterday and look fragile.

A view may start to emerge that US policymakers (both Congress and the Fed) may struggle to enact fresh stimulus before the Presidential elections in November.

Congress seems no closer to agreeing on extra stimulus after the modest Republican plan stalled in the Senate yesterday. And it may take a bigger equity sell-off for the Fed to start talking about fresh stimulus (more QE) since the Fed will be reluctant to make a move in the run-up to elections (next FOMC meeting 5 Nov). An early break of the 3330 level in the S&P 500 could set a corrective tone for risk assets today.

In terms of today's US calendar, we'll see August CPI. A modest pick-up in the YoY headline and core staying at 1.6% YoY is unlikely to have much bearing on the Fed story. Those with short dollar positions may be tempted to take a little more profit today and we could see DXY nudging up to the 93.65 area, with outside risk to 94.00.

EUR: ECB doesn't stand in the way of a stronger EUR

The EUR survived yesterday's event risk of the ECB and at present, it doesn't look like the ECB will stand in the way of a further EUR/USD advance.

Put simply, i) the ECB doesn't target the exchange rate ii) assesses the exchange rate via its impact on inflation and iii) raised its core inflation forecast for 2022. And news that the ECB intends to use its full PEPP envelope should be good for cyclical assets and EZ fragmentation risk (BTP:Bund spread narrowed 4bp yesterday).

The reason we are not more bullish on EUR/USD today is i) equities still looking fragile and ii) it is very rare to see EUR/USD and GBP/USD moving in opposite directions. A messy period in EU - UK relations is not good news for Europe and in the short term – and while deadlines and ultimata are being hurled at each other – it may be hard to see EUR/USD to progress much further to the upside.

That means EUR/USD may trade in a 1.17-1.19 range until GBP finds a floor.

⬇️ GBP: September was always going to be messy

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Ultimata being delivered by both sides raise the prospect of no trade deal and is starting to draw out some of the emotion last seen during the height of the Brexit crisis – e.g. Brussels perceived interference in domestic UK legislation, however contentious that legislation may be.

Deadlines seem to be piling up in the end month/ 15 October window, meaning more scope for GBP weakness. [As Petr Krpata discussed recently](#), a larger risk premium to see EUR/GBP to 0.95, GBP/\$ to 1.25.

⬇️ NOK: High beta NOK could see further correction

NOK has been trading as a high beta. Until OPEC+ have something to say about further cuts (meeting next Thursday), both crude and NOK look vulnerable.

Author

Chris Turner

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

chris.turner@ing.com

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