

FX Daily: Geopolitical risks weigh on activity currencies

FX markets open the week on a nervous footing as investors carefully monitor developments in the Middle East. This should remain the dominant theme in a week of relatively light US data, but plenty of Fed speakers. Elsewhere, it is looking like we will be getting new governments in Poland and New Zealand after elections this weekend



USD: Dollar in demand

The dollar remains well bid as markets nervously monitor developments in the Middle East. Away from the humanitarian disaster in the region, the focus is on whether there is also any escalation at Israel's northern border with Lebanon and also what, if anything, Iran plans to say or do when Israeli forces embark on their ground offensive into the Gaza strip. These uncertain prospects are keeping Brent crude above \$90/bbl, have sent gold higher and in the FX space have seen the Swiss franc emerge as the strongest G10 currency over the last week.

The above theme could dominate FX markets in a relatively quiet week for US data. On that subject, [our team is looking](#) for slightly softer US data this week - with downside risks to

tomorrow's release of September US retail sales. Here, slowing credit card activity warns that the all-powerful US consumer may have run deeper into its savings than most expect. This week also sees plenty of Fed speakers - the highlight being Fed Chair Jay Powell's speech on Thursday - and also the release of the Fed's Beige Book ahead of the next FOMC meeting on 1 November.

Were it not for the geopolitical situation, we would have been warning that the dollar could correct a little lower this week on the prospect of softer US consumption data and seemingly a new path for Fed communication that tighter US financial conditions mean less need for tightening.

However, uncertainty in the Middle East and higher energy prices will see investors continue to back the energy-independent dollar for the time being. DXY can probably grind its way back to the 107.35 high.

Chris Turner

⬇️ EUR: Energy story starting to weigh

High oil prices are starting to see Terms of Trade slowly shifting against the euro. The energy shock is nowhere near as strong as it was last August but still, the direction of travel warns that the energy-importing currencies of Europe and Asia will continue to underperform. In our latest edition of [FX Talking](#), we had a one-month target for EUR/USD at 1.04. We do not see the need to change that. However, we should be aware of the event risks of perhaps softer US consumption data this week, which could provide a temporary lift to EUR/USD. Elsewhere, EUR/CHF has briefly broken below 0.9500 in nervous markets. We would not chase this move, however, since the Swiss National Bank has this cross rate very controlled and is allowing only very measured appreciation in the Swiss franc.

As an aside, political developments in Poland this weekend could come to be seen as a mild euro positive in that it seems a more Brussels-friendly government will be incoming.

Chris Turner

On Friday, the Riksbank announced it had sold USD\$390mn during the first week of hedging FX reserves, while no euros were sold. [We released estimates ahead of the release](#) and calculated that in a scenario where the Riksbank buys the same amount every day for five months (the average of the four- to six-month window indicated by the Bank), that would amount to around USD\$388mn weekly, extremely close to the purchases reported for the first week.

We'll see next Friday whether they are sticking to such a steady purchase schedule. Anyway, SEK strength during the period of FX hedging would have suggested more aggressive buying than USD\$390mn. There is more firepower for the Riksbank to adjust the purchases higher (if it is in the plans to do so at all), which is positive news for SEK. We warned that FX hedging couldn't be enough to take SEK higher on a sustained basis, and external factors remain dominant. But we now see some downside risks to our 11.50-11.60 target for EUR/SEK into year-end.

Francesco Pesole

➡️ GBP: Sterling sideshow

Sterling is rather a sideshow at the moment given that investors are largely preoccupied with events in the Middle East and whether the Fed is embarking on a somewhat less hawkish narrative.

It is, however, quite an important week for sterling in that we have wages and CPI data released tomorrow and Wednesday, respectively.

Markets still have not completely written off the view that the Bank of England has one more hike. In fact, 16bp of further tightening remains priced. This week's data should play a big role in determining whether the Bank Of England does hike on 2 November. We think it will leave rates unchanged.

The difficult international environment should mean that GBP/USD remains biased back to the recent lows near 1.2050. Any upside surprise to UK price data this week looks more like it will be played out in EUR/GBP - where a retest of 0.8600/8610 could be seen.

Chris Turner

CEE: Exit polls indicate opposition victory in Poland

This week we have a rather light calendar in the CEE region concentrated in Poland. PPI numbers in the Czech Republic and core inflation in Poland will be released today. On Wednesday we will have industrial production in Romania and on Thursday in Poland. In both cases, we can expect a continuation of negative numbers in year-on-year terms. We will also see September labour market numbers in Poland where we expect wage growth of 10.2% YoY, below market expectations. And then on Friday, retail sales in Poland will be published. On the monetary policy front, this week we can expect the first statements from Czech National Bank board members ahead of the November meeting. There are several CNB speakers scheduled for tomorrow where we will look for signs of willingness to cut rates as early as November, which is our forecast, or wait a bit longer.

In Poland, exit polls after Sunday's general election indicate a victory for the ruling party but a majority for the opposition parties. The prime minister has indicated an interest in trying to reassemble the government, but unless the early results change fundamentally, we can expect a change in Poland's leadership. Markets are already reacting positively to the result and EUR/PLN has opened 1.3% lower around 4.472. For now, this is also the level indicated by market rates, which jumped on Friday before the end of trading. Nevertheless, we can expect the market to maintain the positive sentiment, which should be positive for Polish assets in general. For now, we see the key level of EUR/PLN 4.450, which will have to be broken on the way down.

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