

FX Daily: Growth differentials on show this week

On paper, it should be a good week for the dollar. US GDP should come in at over 4% and the Fed's preferred measure of inflation should still be running hot. In Europe, PMIs and the ECB bank lending survey should show an economy mired in stagnation, if not recession. Positioning is probably the biggest headwind to the dollar



A busy US data calendar this week features third-quarter GDP figures and Friday's release of the Federal Reserve's preferred measure of inflation, the core PCE deflator

➔ USD: Don't argue with the dollar

The global financial environment can continue to be characterised as 'risk-averse' where both bonds and equities continue to sell off. We do not like the look of the S&P 500 chart at all and note that any disappointment in mega-cap tech stock earnings this week could do quite a lot of damage to broader equity markets.

When it comes to the US calendar, it gets busier through the week. The highlight will be Thursday's release of third-quarter US GDP data, where consensus now expects an astounding 4.3% quarter-on-quarter annualised figure [powered by the consumer](#). Friday follows up with the September core PCE deflator release – the Federal Reserve's preferred measure of inflation – which should still be running hot at 0.3% month-on-month. In theory, then, this data should offer nothing to dollar

bears, and selling dollars rather looks like a leap of faith on the view that this is as good as it gets for the dollar. Perhaps the most likely scenario for a lower dollar is one where equities fall so hard that the short-end of the US curve is re-priced lower and crowded long dollar positions get scaled back.

Away from the US, we have plenty of business survey evidence released in the PMIs this week. We also have plenty of central bank meetings including in the eurozone, Canada, Turkey, Chile and today in Israel. We would have thought that the Bank of Israel might refrain from cutting rates today since it is intervening to support the shekel.

The weekend also saw some surprising election results in Argentina, where the incumbent party's candidate, Sergio Massa, did better than expected. However, he will enter into a run-off with libertarian candidate, Javier Milei, on 19 November. The next month should offer little respite for the beleaguered Argentine peso caught between the monetary-financed spending plans of Massa and the animosity shown to the peso by Milei. More on that from us later today.

Back to the dollar, DXY should continue to consolidate in a narrow 106.00-106.50 range, but we can imagine that protective stops are building on long DXY positions in the 105.55/75 area.

Chris Turner

➔ EUR: Soft confidence data to greet the ECB

The highlight of the week will be [Thursday's European Central Bank \(ECB\) meeting](#), where a pause looks likely – although the door may be kept open for a December rate hike. Ahead of that, the ECB should face a host of soft confidence data, be it the October PMIs or German IFO. These are all expected to continue in stagnant/recession territory. Tomorrow also sees the ECB bank lending survey for September. Last month's survey showed bank lending [contracting at 0.4% MoM](#), which pointed to the effective transmission of ECB monetary policy and hit the euro.

But it is not all bad news for the euro. Rating agency action on Friday left Italy's sovereign rating stable at BBB (a negative outlook had been feared), while Greece got a sovereign upgrade to investment grade. These moves suggest rating agencies are not yet ready to pull the trigger on the ongoing loose fiscal policy seen in Italy, for example.

Somewhat surprisingly, Friday's release of euro futures contracts in Chicago saw speculators actually increasing net long positions. Overall, we suspect positioning is the main factor why EUR/USD is not going any lower now. Despite a negative macro backdrop, it looks worth placing tight protective stops above 1.0620/40 against an unexpected correction higher.

Chris Turner

➔ GBP: Tax cuts floated?

Sterling has been stabilising after a soft week. The UK calendar this week looks slightly sterling negative in that tomorrow's release of the services PMI might disappoint and we also might see some slight softening in the delayed jobs data. However, EUR/GBP has been unable to hold a break over the 0.8700 area and we think it is a little too early for that break, especially since the eurozone data could be soft this week too.

In terms of some left-field commentary, the weekend press saw a UK minister speculating on the

prospects for tax cuts. Clearly, these comments come as a response to the Conservatives' mauling in two by-elections last week. But they do focus attention on the 22 November Autumn budget statement. The chancellor, Jeremy Hunt, has been very clear that there is no room for inflationary tax cuts. Yet, weekend commentary could point to some potential surprises here and at the margin could prove a sterling positive were looser fiscal policy available after all.

Chris Turner

CEE: NBH to cut base rate, CNB one step closer to first cut

The calendar in the CEE region is quite light this week and is concentrated on Tuesday. Today should be quiet on the local front, but tomorrow we will see a decision from the National Bank of Hungary (NBH), labour market data in Poland and consumer confidence in the Czech Republic. The NBH meeting will be the event of the week and [we expect](#) the central bank to start the second phase of interest rate normalisation with a 50bp cut in base rate. However, we see a risk that better conditions in recent weeks – lower inflation, a stronger HUF and the prospect of a resolution to the dispute with the European Commission – increase the likelihood of a 75bp move as well.

For the rest of the week, the calendar is basically empty, but we should still see a few speakers across the CEE region. In the Czech Republic, the blackout period for the Czech National Bank (CNB) begins on Thursday. So until then, we expect some more comments from the board which could give us more clues as to when to expect a rate cut. Our baseline scenario for the first rate cut next week by 25bp remains unchanged. There are also several speeches scheduled in Hungary, including the EU funds minister on Tuesday and the NBH governor on Thursday. In Poland, of course, we will continue to monitor developments after the general election and hope to hear more about what to expect from monetary and fiscal policy.

On the FX front, core rates continue to drive everything including CEE. Rates in the region are catching up with lagging core markets leading to improving interest rate differentials across the board. Local rates have proven to be a key driver over the past few weeks and CEE FX should continue to benefit from this. In the Czech Republic in particular, we are watching EUR/CZK as an indicator for the CNB on how much leeway it has to cut rates in November. As we mentioned earlier, we see the pain threshold at 25.00, but that doesn't seem to be on the table for now. Conversely, we see the highest interest rate differential in two weeks as a chance for EUR/CZK to go to 24.550. For the same reasons, we see gains elsewhere in the region as well for today with EUR/PLN closer to 4.430 and EUR/HUF below 382.

Frantisek Taborsky

Authors

Chris Turner

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

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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>.