

FX Daily: Hanging in there

Despite the ongoing China Evergrande saga plus views from many that equities are due a correction, risk sentiment remains surprisingly supported. Expect another quiet FX trading session before a busy week of central bank meetings.



Source: Shutterstock

➔ USD: Evergrande has yet to land the knock-out blow to risk sentiment

Despite fears that equity markets are due a correction around this time of year, none have so far been forthcoming. As ECB's Isabel Schabel pointed out earlier this week - for European equities anyway - gains have been driven by upward revisions in earnings expectations. While these upward revisions may be stalling in some sectors, there has yet to be a catalyst to trigger a sharp market correction.

One such potential catalyst is the stress in the Chinese real estate sector - primarily through Evergrande - though starting to creep through other real estate developers. It is hard to see any contagion beyond the affected shares and also the China high yield USD bond market. That said, the PBOC did add a lot of short-term liquidity overnight in the 7 and 14 day CNY repo markets, with a CNY90bn liquidity add versus CNY10bn of repo expiring. Quarter-end and a Chinese holiday are approaching, but still the size of the liquidity add surprised local money market traders and

suggests the PBOC want to avoid any kind of stress in the system.

For today the US highlight will be the University of Michigan September survey - providing insights on consumer sentiment and inflation expectations. Sentiment had plunged in August, yet this dip did not seem to [hit August retail sales](#). We think more interest today will be in the 5-10 year inflation expectations, which now stand at 2.9%. Any rise back to 3% or above could nudge US rates higher on the view that the Fed may not be as relaxed on inflation as they appear.

DXY to trade out a 92.50-93.00 range.

➔ EUR: Hawks causing trouble?

Overnight we have seen the [FT report](#) an unpublished, internal study at the ECB suggesting that inflation could sustainably hit 2% by 2025, such that the ECB could start raising rates in 2023. The ECB has said the article is inaccurate. The move smacks of some of the ECB hawks trying to open up the debate on monetary normalization. The EUR has not reacted to the story, but the story does serve as a reminder that dissension could be growing and that over coming months Eurozone FX and rates markets could become more sensitive to any stronger growth or higher inflation data.

EUR/USD may trade a 1.1750-1.1800 range today. Elsewhere, it is interesting to see EUR/CHF move back above 1.09. One can perhaps argue that a higher EUR/CHF will be a key outcome of this dissent within the ECB. If there is any central bank that can out-dove the ECB, it is the SNB.

➔ GBP: August retail sales disappoint

A poor UK August retail sales report may take some of the momentum out of the rise in UK money market rates and also GBP. Yet the BoE meets next Thursday and it seems unlikely that they, unlike the RBA earlier this week, would want to deliver a 'rate protest' against market pricing of the policy cycle.

Cable to continue to gravitate around 1.3800 and EUR/GBP remains supported near 0.8500.

➔ CZK: More focus on 50bp hike Sep 30th

EUR/CZK dipped towards the lows of the year at 25.25 yesterday after a second CNB board member floated the idea of a 50bp hike at the Sep 30th rate meeting. Money market products (FRAs) suggest 35-37bp of tightening is priced for the Sep 30th meeting, suggesting that there could be room for some modest upside in rates and CZK if speculation builds that 50bp is possible after all.

EUR/CZK has been a very popular trade this year - both for direction and carry - and it looks like these trends will extend into the Sep 30th meeting.

Author

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

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 www.ing.com.