

## FX Daily: Heightened volatility

After a tumultuous week in FX where even the US Treasury understood Japan's need for FX intervention on the back of 'heightened volatility', markets may be more calm today. The Central and Eastern Europe region is still looking for solid ground after the news from Russia and Hungary remains the number one topic



### ➔ USD: Calm down

Yesterday's FX [intervention](#) from the Bank of Japan (BoJ) has slowed the dollar bull trend little. The amount of dollars sold will not be revealed until 30 September, but it should be in the billions. While the US Treasury said the US did not jointly intervene with the BoJ, the fact that it said it 'understood' why the intervention took place could raise expectations that G20 finance officials tweak the laissez-faire FX language in their communique when they meet on 12 October.

We doubt this intervention puts a top in the dollar, but investors will think twice about paying for USD/JPY over 145 now that the BoJ has started its intervention campaign.

The US data calendar is light today and FX markets may choose to consolidate in narrow ranges after a volatile week. DXY to consolidate well within a 110.50-111.50 range.

*Chris Turner*

## ➔ EUR: PMIs to keep euro capped

EUR/USD has remained on the back foot in line with the global risk sentiment and the market's concerns about the latest developments in the Russia-Ukraine conflict. Today's highlight in the eurozone will be the release of September PMIs, and investors are expecting a further drop in economic contraction territory. That should keep European sentiment weak, especially after yesterday's consumer confidence hit a record low, and may prevent any relief rally in the EUR for the time being. The 0.9800 level is looking increasingly fragile.

On the European Central Bank side, two hawks are set to speak: Bundesbank President Joachim Nagel and Latvia's Martins Kazaks. Chances of hawkish comments lifting the euro at this stage are rather slim though.

Elsewhere in Europe, markets are digesting two central bank decisions: in Switzerland (a 75bp hike) and in Norway (a 50bp hike). The [former](#) triggered a squeeze in EUR/CHF positions which led to a post-meeting rally, possibly due to some investors having expected a Riksbank-style 100bp move. However, we do not expect the EUR/CHF rally to last, since – as discussed in [this article](#) – we think the Swiss National Bank will guide the nominal EUR/CHF exchange rate lower to keep the real rate stable.

The Norges Bank 50bp hike was largely expected and was followed by a very muted NOK reaction. As highlighted in our meeting [review](#) – we noticed a dovish tilt in yesterday's policy message, as the Bank signalled how a slower pace of tightening may be warranted now that the Norwegian economy is showing signs of a slowdown. However, we would be careful before ruling out another 50bp hike in November just yet. All this is still set to be quite a secondary theme for NOK, which remains driven by external factors and faces lingering downside risks due to its very high beta to global risk dynamics.

*Francesco Pesole*

## ⬇ GBP: Fiscal event planning

Sterling net-net was a little lower after yesterday's divided [Bank of England hike](#). Today sees the big reveal of Chancellor Kwasi Kwarteng's 'fiscal event'. As noted recently, typically looser fiscal and tighter monetary policy is a positive mix for a currency – if it can be confidently funded. Here is the rub – investors have doubts about the UK's ability to fund this package, hence the Gilt underperformance.

With the BoE committed to reducing its Gilt portfolio, the prospect of indigestion in the Gilt market is a real one and one which should keep sterling vulnerable. We favour GBP/USD pressing 1.10 over the next month and EUR/GBP pressing 0.88.

*Chris Turner*

## ➔ CEE: Expected rating outlook downgrade is another blow to the forint

Hungary will again top today's calendar in the region. Apart from the labour market data, we will also hear Finance Minister Mihaly Varga's speech and later today Moody's will publish a rating review. Given the still uncertain developments in the discussions between the European

Commission and the Hungarian government, we expect a downgrade in the outlook to negative, just as S&P did in August.

The FX market in the region is looking for solid ground after the news from Russia, which for now may be provided by the stability of the gas price, and which remains the main driver. On the other hand, interest rate differentials across the region are reaching new lows after another sell-off in developed markets and the US dollar is also not improving the outlook for CEE FX. In a nutshell, the picture is mixed and it is hard to find a way out. In our view at the moment, the Polish zloty has the best chance of erasing this week's losses thanks to its long-term squeezed positioning, and could return below 4.740 EUR/PLN for now. The forint could also see some gains today, but a deterioration in the rating outlook will bring the EU money theme and the negative market sentiment of the previous days back into play in our view. The Czech koruna should continue to maintain the intervention band 24.60-70 EUR/CZK and we do not expect it to break out of these levels at least until the Czech National Bank meeting next week.

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