FX Daily: High bar for trade agreement

US-China trade talks kick off today but we don't expect much progress. Inflation data, minutes from the last ECB meeting and yet more Brexit talks will also help to steer the markets

USD: High bar for trade talks to succeed

All eyes are on the start of US-China trade talks today. The latest developments (visa ban on Chinese officials and talks about possible restrictions on US portfolio flows into China) suggest a very high bar for an agreement. On the US data front, the focus is on the US September CPI, where our economists see some downside risks following the weaker than expected PPI. This, coupled with the expected limited progress on trade talks, suggests that the market should continue to assign a high probability to an October Federal Reserve rate cut. But as this is already largely priced in and the lack of progress on trade is a negative for global growth, the US dollar should remain supported.

EUR: The divided ECB Governing Council

Following news of a split at the ECB over the last round of monetary easing, the focus is on the ECB Minutes today. The views of dissenters have already been clearly expressed and so we're not expecting much more detail. The prime driver of EUR/USD will be the headline news on US-China trade talks. On Brexit, Prime Minister Boris Johnson meets Irish Prime Minister Leo Varadkar today in one of the last attempts to reach an agreement. Yet any progress is unlikely given the vastly different positions of both sides. EUR/GBP to test 0.9000.

SEK: Yet another bad number

In Sweden, CPIF Inflation is likely to show annual inflation at 1.1-1.2% - another three-year low. This should be yet another negative Swedish reading and should further undermine the Riksbank's optimism and its non-credible forward guidance on interest rate increases. This is likely to weigh on the Swedish krona. We expect EUR/SEK to hit the psychological 11.00 level this quarter as the nature of the Swedish economy (small, open economy levered to global trade) and poor characteristics of the currency (high beta, yet negative interest rates) make it vulnerable in the current slow growth / trade war environment.

CZK: Decelerating CPI makes a November hike less likely

September Czech CPI will remain close to the 3% tolerance band, but with package-holiday prices usually falling after the summer, our economists expect some deceleration in year-on-year headline CPI to 2.8% YoY. This, coupled with a slowing eurozone economy and uncertainties associated with Brexit and US-China trade dispute, suggests that the Czech National Bank should stay on hold at its next meeting in November. The non-tightening CNB and the challenging environment for emerging markets FX suggest more downside to the overbought koruna. We expect EUR/CZK to test 26.00 this quarter.