

## FX Daily: High energy

After a week dominated by central bank meetings, the focus in FX markets this week switches to politics, energy, and European inflation numbers. Unless the US Congress can find a way forward on the US debt ceiling, expect the risk environment to remain fragile and the dollar bid on dips.



Journalists being shown the repairs to Aramco's oil processing plant after a drone attack

### USD: Capitol Hill will be busy

The week starts with focus on the German election result but serves as a reminder that it is a big week for politics. In particular, US Congress needs to raise or suspend the US debt ceiling such that the US avoids a government shut-down in mid-October. So far there are no signs that the Senate Republicans want to play ball here, which could create a few nervous weeks for US equity markets. Certainly, it seems that US Money Market Funds with exposure to US Treasury Bills are shortening durations to make their portfolios more liquid. Congress will also try to make progress on a bi-partisan infrastructure bill, albeit the \$550bn package seems far less ambitious than original plans.

Also very much in focus is the [strong rise in energy prices](#) around the world, be it oil, gas or coal. These high prices look like they will be with us for some time (OPEC+ meets Oct 4th to discuss its next supply move) and should continue delivering the out-performance of the energy-exporting currencies of Russia and Norway. Typically the big energy importing currencies of Japan and Turkey should be under-performing right now (which they are).

Against this mixed backdrop, we will also hear from a variety of Fed speakers this week. The short-end of the US curve has risen on the back of a hawkish set of Fed Dot Plots and we suspect that provides a bullish undercurrent for the dollar in the near term. Please see our full G10 Week head [here](#).

With the Evergrande situation still very much unresolved, we see DXY remaining bid on dips and potentially testing the range highs at 93.50/70 this week.

## ➔ EUR: Let the horse trading commence

Early results in the German election suggest the SPD will marginally have the largest representation in the Bundestag, though that does not mean that it is invited to form a new government. Any of the actors can try to strike a deal amongst themselves and over coming days, weeks, and perhaps months we will have to see what price the Greens and the FDP demand for entering government. The tight result has so far had little impact on the EUR, where the Angela Merkel-led grand coalition will continue until further notice.

Expect the EUR to take more interest of two key events this week. The first is the run of September CPI figures, starting with the German release on Thursday and then the Eurozone flash release on Friday. Here another high number - consensus at 3.3% YoY for the Eurozone - could release another round of complaints from the ECB hawks. This may be the best chance for EUR/USD holding above 1.17 this week. The second is the ECB's Sintra symposium - this time taking place virtually Sep 28-29. Let's see whether the ECB sheds any light on what it may plan to do at the December meeting, where the future of PEPP will be very much in focus.

EUR/USD is just about holding support at 1.1700, though looks vulnerable to the 1.1660/70 area this week.

## ⬇ GBP: Winter of discontent

UK newsflow over coming weeks may well be at odds with the optimistic pricing in the UK rates market. Beyond the current disruptions with fuel shortages, we will see: i) the end of the UK furlough scheme and what it will do to unemployment and ii) the end of universal credit which supports those most in need. October will also see a 12% rise in energy prices as price caps are adjusted higher (a similar price hike should be seen next April). We thus suspect that market pricing of an April or even February BoE rate hike is too aggressive.

Look out for a speech from BoE Governor Bailey to the society of professional economists. The text of the speech is released at 17CET today. Cable could grind back to the 1.3600 area - retracing last week's BoE-inspired rally.

## ⬇ JPY: Leadership election on Wednesday

On Wednesday LDP members elect their new leader to replace current PM Suga. The outcome is far from certain in that some of the key factions within the LDP have yet to express their preferences. All we can say at this stage is that the front-runner, Taro Kono, is reported as being the furthest from Abenomics and the least supportive of prolonged BoJ easing. Should he win the leadership election, the JPY could find some support.

Until then high energy prices and rising US yields keep the JPY on the back foot, yet we see

111.00/111.50 as the top of the near term range for USD/JPY.

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