FX Daily: IMF forecasts provide little comfort

The IMF's lower global growth forecasts still look a little optimistic and it seems too early to jump back into pro-cyclical currencies

Source: Shutterstock

USD: IMF slashes growth forecasts and pins hope on an EM rebound

Revising down its world growth forecasts for 2019 to 3.0% (from 3.3%) and 3.4% (from 3.6%) respectively, the IMF is still pinning its 2020 recovery hopes on some of the large emerging market nations, such as India, Russia, Brazil, Mexico and Africa. Advanced economies are expected to languish at 1.7% growth in 2020, the same as 2019. These forecasts feel a little optimistic to financial markets right now, which would like to see some concrete improvement in geopolitical and trade relations. As such, it seems too early to be jumping back into pro-cyclical currencies. Immediate points of concern include US-China relations. It seems China may want some existing tariffs rescinded before even signing up to the Phase One deal announced last week. We'll also be keeping close watch of the USD/CNY fixing, which nudged higher last night after nearly a month of flatlining. For today, we see a speech (1645CET) from Federal Reserve dove Charles Evans, who favours another insurance cut (now 73% priced for 30 October). And we'll also see September US retail sales, expected to hold up and confirm the divergence between the consumer and business sectors. With emerging markets staying fragile, and a good part of the Brexit rebound already priced into European FX, we expect DXY to find support in the 98.00/98.20 area.

EUR: Along for the ride

European FX has been lifted by progress on Brexit discussions and could find a little more support into the weekend. But we prefer a 1.0980-1.1080 EUR/USD range.

GBP: Sizing the squeeze

Sterling is undergoing a vicious short squeeze, which may have a little further to run over coming days. Later today, we should hear whether UK-EU negotiators have got a deal over the line – which would then be rubber-stamped by EU leaders on Friday. The debate would then move onto to whether Prime Minister Boris Johnson could go one better than his predecessor and secure parliamentary approval for the deal in a Saturday sitting of parliament. Unless a deal fails to materialise later today, we'd say GBP/USD could squeeze higher into the 1.2880/2900 area with EUR/GBP standing an outside chance of 0.8500 before the weekend.

Commodity bloc: data to help CAD and AUD

While global risk sentiment remains fragile and is keeping the outlook for activity currencies negative, markets will focus on some key data today. In Canada, September CPI should continue to hover around the 2% Bank of Canada target mid-point, further denting the (already low) BoC easing expectations and keeping a lid on USD/CAD.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com