

FX Daily: QE won't hit Hungary's forint

The National Bank of Hungary should unveil its quantitative easing plan later but we don't think this will have a detrimental effect on the currency



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➔ USD: Choppy

What was quite a positive start to the week (in equities, debt and FX markets) has lost a little momentum Tuesday morning. That will probably characterise trading conditions through 2Q20 – news of lockdown exit developments were never going to trigger a benign, uninterrupted recovery. Ahead of a busy event calendar on Wednesday/Thursday this week (1Q GDP data and central bank meetings in the US and eurozone) expect more consolidation today, with the markets keeping an eye on whether: (i) WTI futures trading near zero again as USO exits the front-month contract and (ii) the impeachment of Brazilian President Jair Bolsonaro takes another chunk out of the Brazilian *real*. Prefer DXY capped at 100.50/75.

➔ EUR: Euribor makes a welcome turn lower

EUR/USD price action was a little disappointing yesterday, stalling well before initial resistance at 1.0880. This despite EUR/CHF making a good recovery and bond investors signalling their faith in the ECB's Pandemic Emergency Purchase Programme by driving Italy's BTP yields below 1.70%. There is also welcome news in 3 month Euribor starting to turn lower again. On the day, let's see

whether EUR/USD can hold support at 1.0770/80.

📈 SEK: Riksbank to stay on hold, with bar for negative rates set high

We expect the Riksbank to stay on hold today. Interest rates are at zero and the bank has a low appetite to move it back into negative territory. While the board decision is unlikely to be unanimous, the majority should still favour an unchanged interest rate. The central bank already extended its QE programme (by SEK 300 billion for 2020) which is likely to be a sufficient response for now and we don't expect an imminent QE top up today. Hence, the Riksbank meeting should be non-negative for the Swedish krona, with EUR/SEK possibly testing the 10.80 level.

➡ HUF: Financial stability QE shouldn't harm the forint

We expect the National Bank of Hungary to announce conditional financial stability-focused QE today, aiming to help Hungary's bond market while not harming the forint. We don't expect the NBH QE to have a detrimental effect on HUF as (a) the QE was already signalled earlier this month; (b) it is unlikely to surprise on the dovish side (i.e. no large scale, open-ended QE, but rather a quasi-sterilized financial stability focused programme); (c) front-end rates / implied yields will remain elevated, thus anchoring HUF. Given the perceived NBH unease with recent overly weak HUF levels and its heightened volatility, further HUF falls (which would be out of sync with CEE FX) would likely trigger another hike in the 1-week deposit rate. EUR/HUF to stay below 360 today and hover around this level in the months to come.

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