# FX Daily: Lower for longer

The Federal Reserve may revise its GDP forecasts higher today while indicating that interest rates will stay lower for longer. This should be modestly supportive for risk assets and keep the US dollar on the soft side

Fed Chairman, Jerome Powell

## USD: FOMC to reiterate the lower for longer message

The FOMC meeting is the main event of the day.

With the move towards average inflation targeting being priced in (following Chair Jerome Powell's speech in Jackson Hole) the focus will be on the new updated economic forecasts. As per our FOMC preview, we may see an upward revision to the GDP outlook (reflecting the recent stronger data) but both inflation and interest rate forecasts out to 2022 are unlikely to change much.

This mix of a better growth outlook and an indication of looser policy for longer should be modestly supportive of risk assets and keep the US dollar softer today.

## EUR: Getting a helping hand from the Fed

Should the Fed deliver the message of a higher GDP forecast but low rates for longer, this should be modestly positive for EUR/USD and take the cross closer to the 1.1900 level today.

In the Central and Eastern European space, the Czech koruna has recently been meaningfully underperforming its CEE peers, with EUR/CZK breaking through the 26.80 level yesterday. We see (yet again) the stretched long CZK positioning as the main factor behind the scale of the CZK fall. Long CZK has been a high conviction fundamental CEE trade since the peak of the Covid crisis.

We don't see any fundamental change to the CZK's outlook at this point and estimate that it now trades with a large risk premium vs the euro (around 2%). We expect EUR/CZK to find strong resistance in the 26.800-27.000 area.

## GBP: Short-lived support from global risk sentiment

Improved risk sentiment and a softer USD helped sterling (both vs the dollar and the euro) but given the heightened Brexit risk, we expect the positive spillover from global factors into sterling to be short-lived and muted.

Both August UK headline and core CPI surprised on the upside this morning (down less than expected), but the risk to the Bank of England's stance remains heavily skewed to the dovish side due to the mix of an uncertain economic outlook and increased hard Brexit risk.

## BRL: BACEN to perform delicate balancing act

Brazil's central bank meets today and is unanimously expected to keep the Selic rate unchanged at 2%.

As Gustavo Rangel discusses in his Brazilian outlook, BACEN has not ruled out further rate cuts but is wary: of (i) inflation (especially PPI) reversing higher and (ii) the fiscal risk premia emerging in the *real* and perhaps growing were BACEN to take real rates deeper into negative territory.

We think USD/BRL is finely balanced and could see a symmetrical reaction to a dovish or hawkish surprise. The benign external environment leaves us with an overall bias for 5.20/25 over coming months – as we outline in September's FX talking.

### Author

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

**Francesco Pesole**
FX Strategist
francesco.pesole@ing.com