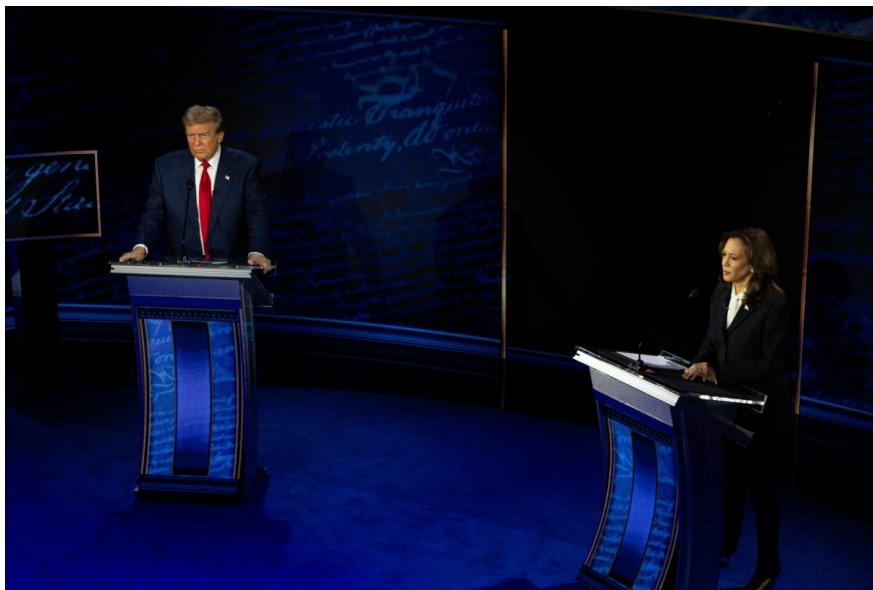


FX Daily: Markets award Harris victory on points in debate

A weaker dollar (and bitcoin) across the board, Asia EMFX outperformance, and softer US equity futures match opinion polls pointing to Harris having done better than Trump in the first presidential debate. Today, the focus will shift back to data with the release of the US CPI: we expect a core 0.2% MoM print, in line with consensus



Kamala Harris and Donald Trump debating last night

We have published the September edition of [FX Talking: Soft landing or recession?](#)

➔ USD: Harris narrowly wins the debate

Donald Trump and Kamala Harris debated for more than 90 minutes yesterday over a number of key issues including abortion rights, immigration policy and the economy. Unlike the first presidential debate between Trump and Biden, where the latter came out as clearly defeated, this one was not interpreted as ending in any “knock out” win. However, markets seem to have

awarded Harris a victory on points, and a CNN poll showed 63% of voters thought Harris won the debate. In FX, a Trump win is associated with a stronger dollar, which is trading on the soft side across the board.

In the EM space, Asian currencies are the best performers, which is a clear indication of Trump trades being scaled back. Interestingly, USD/CNY is only modestly lower and two key China proxy trades (AUD and NZD) are lagging other G10 currencies. That may be a consequence of Harris opposing Trump's universal tax plans but still sounding determined to maintain protectionism pressure on China. CEE currencies and the high-beta NOK are also moderately stronger, which could be associated with lower geopolitical risks associated with Russia-Ukraine under Harris. More details on FX sensitivity to US election topics can be found in our [US election guide for the FX market](#).

In other asset classes, US stock futures point to a -0.4% open while European equities are expecting to open mildly in the green. That mirrors reduced expectations of a Trump-led US stock outperformance. Bitcoin trading on the back foot since the debate signals lower perceived probability of Trump winning, as he is seen as the candidate with a more favourable stance on cryptocurrencies.

That said, the moves are generally quite contained in size. Betting odds are seeing Trump's chances of winning the election back below 50%, but both campaigns signalled openness to another debate, and markets may want to wait on new opinion polls in the coming days to take more decisive positions on the election. For now, indications that Harris won this debate, even if by a small margin, can keep a lid on the dollar and generally prompt a more favourable environment for currencies with a high beta to protectionism and geopolitical issues.

An extension of the presidential debate fallout in markets will get mixed up with the impact of the August inflation report today. We know that the Fed is now more relaxed and less sensitive to small deviations in the CPI figures, but this is the last big data release before the 18 September FOMC announcement, and market's 33bp pricing means a 50bp cut is still being considered.

We expect core CPI at 0.2% month-on-month, which is a rather strong consensus call. The risks do appear slightly tilted to the upside for the dollar, as markets may lean even more in favour of a 25bp cut next week on a consensus (or above) figure, and may instead require a 0.1% MoM figure to push the pricing closer to 50bp. Crucially, 0.1% does not guarantee a 50bp cut in September. However, as highlighted above, lower perceived chances of a Trump win can keep a lid on dollar gains, and barring a substantial CPI upside surprise, DXY may struggle to make its way back to 102.0 before the FOMC.

Francesco Pesole

➔ EUR: Eyeing 1.11 by the end of the week

The US presidential debate did not generate any shockwave for EUR/USD, but gave enough short-term support to the pair to send it back to 1.105 after a soft session yesterday. The next few days will help shape the FX reaction to the debate more clearly, but we have been generally positive on EUR/USD staying supported into the US election and the rising perceived probability of Harris winning is endorsing this view.

Looking at this week, EUR/USD will still be entirely driven by US events today as US CPI is released

and markets may place more US election trades on, but tomorrow will all be about the ECB meeting. A 25bp rate cut is nearly guaranteed, but as discussed in our [ECB Cheat Sheet](#), there is room for EUR/USD to trade higher on the back of a hawkish repricing in front-end EUR rates.

By the end of the week, the net effect of the presidential debate, US CPI, and the ECB announcement could have sent EUR/USD back to 1.110 in our view.

Francesco Pesole

➔ **GBP: Softer UK growth figures**

GBP/USD traded above 1.310 as European currencies moderately benefitted from Harris being the perceived winner of the debate, but is struggling to hold on to gains this morning after some softer-than-expected monthly UK GDP figures.

July's growth came in at 0.0% MoM versus an expected 0.2%, and industrial production remained weak at -1.2% versus a -0.1% consensus. This probably throws some cold water on the recent notion of UK "exceptionalism", especially when compared to the eurozone, but equally is no game changer for the Bank of England at this stage.

We are seeing EUR/GBP having bottomed out for now and finding some tentative support. We think tomorrow's ECB meeting can favour a near-term leg higher, and a chance to move back to 0.850 by the end of September.

Francesco Pesole

⬇️ **Latam: Currencies remain on the backfoot**

Concerns over softening global demand have so far outweighed any benefits from lower US rates and Latam currencies remain under pressure. The currencies of Colombia, Brazil and to a lesser degree Mexico are getting hit by lower energy prices and investors in the region will have to take a firm view on how far and fast this correction in crude oil prices can extend.

In addition, local negative stories continue to undermine Mexico's peso and Brazil's real. The potential passage of judicial reforms is still weighing on the peso. In Brazil, the next significant event risk (beyond US politics) will be the selic rate decision on 18 September. It seems the market is pricing and needs a hawkish hike from Brazil's central bank. Any reference to "gradualism" or an unclear path on the extent of the tightening cycle could hit the real and call on the central bank to again intervene in the 5.65 area.

All in all, we see little respite for Latam currencies this month, even though the Fed will be cutting.

Chris Turner

Authors

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.