

FX Daily: Russia's central bank to keep rates on hold with uncertainty in focus

Expect the central bank of Russia to keep the key rate unchanged at 4.25% today given the increased market volatility in RUB assets and the geopolitical uncertainty



⬇️ USD: Dollar gains fading

Cyclical currencies have stabilised overnight following their post-FOMC decline.

Given the strong narrative of low US negative real rates for longer, we don't expect periods of USD gains to be pronounced and long-lived. The [recent move in oil prices higher](#) should also help cyclical FX vs USD today. Although there was no change to the OPEC+ deal yesterday, the Saudis put renewed pressure on members who are falling short of the deal, to be compliant as well as compensate for their lack of compliance so far.

The UAE committed to make up for its previous non-compliance. In the short-term, this should give support to oil-exporting currencies such as NOK, CAD, MXN and RUB benefiting.

➔ EUR: Staying close to the 1.1850 gravity line

EUR/USD has been broadly trading around the 1.1850 gravity line so far this week and this trend should remain intact today, given the lack of meaningful data points and the modestly softer USD overnight. What seems a stabilising risk environment should also help CEE FX today and halt the currencies' recent decline.

⬇️ GBP: BoE pouring more fuel into the GBP fire

The Bank of England poured more fuel into the GBP fire yesterday as officials signalled that the [effectiveness of negative interest rates was under discussion](#).

In our view, the increased probability of no-deal Brexit makes negative rates even more likely. We continue to see more downside to GBP as not enough risk premia is priced into the currency while the odds of further negative headline news from the (lack of) trade negotiations are high.

We expect EUR/GBP to re-test the 0.9300 level again this month.

[Read our Bank of England review](#)

⬆️ RUB: CBR on hold with uncertainty in focus

We expect the central bank of Russia to keep the key rate unchanged at 4.25% today given the increased market volatility in RUB assets and the geopolitical uncertainty.

But the central bank is to confirm scope for further rate cuts to 3.5-4.0% in the next 6-12 months, depending on the inflation trajectory. We look for a limited reaction in RUB as (a) such an outcome is expected; (b) the uncertainty associated with geopolitics and the risk of possible sanctions now matter more for RUB and place the central bank guidance in the background.

The latter is a limiting factor to the near-term RUB upside despite RUB exerting one of the highest real rates in the emerging market space and the seasonally soft summer period being now over. A recovering oil price should be more of an important driver of RUB today and suggest a stronger RUB.