

FX Daily: Shifting away from the rate discussion

The ECB announces policy today, and we expect both a hold and an attempt to divert the focus away from rate-based guidance to non-rate monetary policy discussions. The recent dovish repricing does leave some room for a hawkish surprise, but we doubt any EUR/USD rally would last. Elsewhere, a strong US GDP figure could further strengthen the dollar



ECB President Christine Lagarde

➔ USD: Growth story helping to build a floor

The past 24 hours have seen a further strengthening of the dollar due to: a) fresh pressure on equities; b) oil prices moving back higher, and c) the US finally electing a new House Speaker. Republican Representative Mike Johnson, who is widely considered to be an ally of former President Donald Trump, was elected yesterday after a long standoff and will now face two key policy challenges: averting a government shutdown by 17 November and discussing funding for Israel and Ukraine.

The government shutdown is the most relevant issue from an FX perspective, as it could dampen

the so-far very resilient US growth expectations. A new House Speaker was a necessary condition of averting a shutdown and that is contributing to a stronger dollar via yet higher yields. 10-year Treasuries are back around 5% which has sent USD/JPY to fresh highs (150.60 at the time of writing). Intervention alarms are flashing amber in Tokyo, again. It is still unclear whether Japanese authorities intervened back on 3 October when USD/JPY touched 150.00 and dropped rapidly: intervention figures on 31 October will help us understand that.

Today, the US data calendar picks up again. Third-quarter advanced GDP figures are released and should come in strong, with the consensus centred around 4.5% quarter-on-quarter annualised growth. Core PCE figures for 3Q are expected to slow down to 2.5% QoQ. Durable goods orders for September are also published and should be strong, and there will be the usual focus on initial jobless claims that dropped below 200k last week.

The European Central Bank meeting will steer markets too, although – as discussed below – we do not expect a long-lasting impact on EUR/USD. All in all, the dollar retains the negatives of an overbought currency and is therefore at risk of some technical corrections, but the growth and rate fundamentals are building a stronger floor for the greenback. We see a greater risk that Japanese yen interventions drag the dollar lower, if anything.

Elsewhere, we'll see important releases this morning in Sweden ahead of key [FX hedging figures tomorrow](#). In Australia, new CPI figures have prompted us to reiterate our call [for another hike](#), and the Bank of Canada meeting yesterday showed a [determination to stay hawkish](#), but we don't expect more hikes and the impact on CAD should be limited anyway.

Francesco Pesole

➔ EUR: ECB meeting should be a game-changer for EUR/USD

We look at different scenarios for today's ECB announcement here in [October's ECB Cheat Sheet](#). As discussed in the note, our base case is a hold. Today's meeting was always going to be an in-between one, with any major changes in the policy message likely to be delayed until December when new staff projections are released.

If a hold isn't something the ECB is used to, President Christine Lagarde isn't new to the task of trying to sound hawkish. She previously faced instances where market pricing was too hawkish, and hard to match, but the recent difficulty has stemmed from growing evidence of an economic slowdown. An addition for this month is the below-consensus inflation figures for September, which are helping the case of the doves.

Markets have substantially scaled back their tightening expectations into this meeting, from 16bp after the September meeting to almost zero this morning. This would, in theory, leave room for a hawkish surprise, but we do struggle a bit to imagine how Lagarde can convince markets another hike is still possible. The last two pieces of data available to the Governing Council, PMIs and the ECB's Bank Lending Survey, were unmistakably dovish events.

We expect the Governing Council to say it is closely monitoring inflation, which remains too high while welcoming the recent declines. Our core view for today is that the ECB will try to shift away from offering rate guidance to focusing on non-rate policy tools discussion – i.e. minimum reserves, reversed tiering, and a possible earlier unwinding of the Pandemic Emergency Purchase Programme.

As mentioned, there is some room for a hawkish surprise, but we would have some doubts – given the rate and growth differentials – that markets will have the appetite to chase EUR/USD rallies beyond 1.060/1.0630 for much longer after the ECB announcement. All in all, we don't think this will be a game-changing event for EUR/USD.

Francesco Pesole

➔ TRY: CBT meeting today

Today, the Central Bank of Turkey (CBT) announces its policy decision. The vast majority of economists, ourselves included, expect a 500bp hike. This would take the one-week repo rate to 35%. There is a minority, however, looking for a smaller 250bp hike. A smaller hike might initially hit the Turkish lira on the view that the CBT is reluctant to take real rates into positive territory.

However, we suspect there will be demand for lira through the forwards market were the year-end outright to be priced substantially above 30.00. We say this because it looks like the CBT currently has the TRY locked in a managed depreciation regime, with a seeming target of around 30.00 at year-end.

Chris Turner

⬇ CLP: Another 75bp cut?

In Chile, the focus will be on whether the central bank will cut rates 75bp again. This would leave the overnight target rate at 8.75%. The central bank has also guided expectations for the policy rate to end the year in the 7.75-8.00% area – leading to speculation of 75bp cuts both today and at the December meeting.

The problem is that Chile's peso has fallen around 6-7% since the last meeting in September and central bank commentary has said it would take that 'very important' depreciation into account. This has seen easing expectations pared back slightly. However, the central bank inflation expectations surveys still show the 12-24 month median around 3% and the central bank may not see any advantage in deviating from the prior strategy. A large 75bp rate cut could be a little tricky for the peso in a strong dollar environment. Barring a big improvement in the external environment (and a softer dollar) USD/CLP risks may be skewed back to 950.

Chris Turner

Author

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 www.ing.com.