

FX Daily: Stark growth gap makes the dollar even harder to sell

As we had suspected, the ECB meeting proved to be a non-event, and EUR/USD is now left with an ever-unfavourable rate differential. In addition, with US GDP coming in strong, the growth divergence continues to widen, making the dollar even harder to sell in the current environment. Elsewhere, Riksbank reported FX sales should decline but remain elevated



US growth numbers beat expectations on Thursday

USD: Growth and rates gap more and more favourable

Right after an uneventful ECB announcement, US GDP figures beat estimates and confirmed the growth differential between the US and its key developed peers is significantly wide – and widening. As discussed in [this analysis](#) by our US economist, the GDP surge to an annualised 4.9% in 3Q was primarily due to consumer and government spending. We don't expect such strong performance to be repeated in the fourth quarter, where we're forecasting 1.5% growth. For now, the evidence of the strong growth momentum into the last part of the year is adding fuel to the higher-for-longer rate narrative.

The dollar's reaction was quite muted: we don't think this was due to any impact from the ECB, but

rather to the 3Q US PCE figures, which came in lower than expected at 2.4%, and potentially jobless claims climbing back to 210k. There is also a building trend for the dollar to find less and less upward momentum after some strong releases. That is consistent with the overbought condition of the greenback and the notion that we might be close to the peak in US activity data optimism. In this sense, we could see data outside of the US (i.e. in the eurozone or in China) having a greater impact on global market dynamics as they have done in the past few weeks.

Still, when we strip out the immediate market impact of the data releases, the case for a stronger dollar continues to consolidate. If personal income and PCE figures for September fail to steer the FX market drastically today, we still feel that the dollar may stay broadly supported into the weekend, and we would favour fading any (USD-negative) position-squaring upward correction in the crosses.

Francesco Pesole

📉 EUR: Downside risks after a non-eventful ECB

We had suspected the ECB wanted a “quiet” meeting yesterday. If that was indeed the intention, we may call it one of the most successful ECB meetings from a communication standpoint in the Lagarde era. [Here](#) is how our economics team saw yesterday’s event.

With no new guidance and Lagarde having even avoided touching upon non-rate monetary policy tools’ tweaking, the impact on markets was quite negligible: eurozone bonds slightly stronger, EUR almost unchanged. It is clear now that the euro will not be able to draw any substantial benefit from a more hawkish ECB, and markets have all the reasons to keep rate expectations depressed on the back of the deteriorating growth outlook. The slight rebound in EUR/USD overnight appears to be due to the improvement in global risk sentiment after a round of good US tech earnings.

We discussed above how the dollar has appeared less responsive to strong US data releases, and there has been a broader impact of eurozone data; it will be interesting to see whether this continues to be the case after the dovish hold by the ECB. Either way, with eurozone data unlikely to turn materially stronger in the near term, and rate/growth differentials pointing south, we retain a short-term bearish bias on EUR/USD.

Francesco Pesole

📉 GBP: Swinging rate differentials

The UK data calendar has been quiet since jobs data and PMIs were released on Tuesday, leaving sterling almost entirely driven by external dynamics. With less than a week to go to the Bank of England meeting and the MPC members in the black-out period, markets have cemented their view there will be no change at any of the upcoming policy meetings. The dovish repricing in the BoE rate expectations has sent GBP-USD in negative territory (-9bp) and to the lowest since April.

Risks remain skewed to further attempts to the 1.2000 key support in the short term in Cable as the dollar still appears to have room to catch up with its better rate profile. The recent EUR/GBP rally to the 0.8700 handle may have run out of steam after the ECB meeting, even though we favour longer-term bullish positions on the pair.

Francesco Pesole

➔ SEK: FX sales to slow, but may still be too high for comfort

The Riksbank will publish data for the third week of FX hedging (9-13 October) this morning. [As discussed here](#), last Friday's surprisingly high USD sales figures (USD 1.34bn) for the week of 2-6 October likely signal that the Riksbank aggressively bought SEK to prevent a slump in the krona. The lack of daily details makes it hard to estimate a figure for today's release, but looking at EUR/SEK dynamics in the week of 9-13 October, we expect lower weekly USD sales compared to the previous one – in our best estimate around USD700-900mln. However, EUR sales figures might be higher (i.e., around EUR100mln).

We had warned that high SEK purchases were not good news for SEK, and the price action since last Friday has confirmed our fears. If indeed the Riksbank was defending the 11.65 EUR/SEK level (as it appeared to be doing in two instances in October), it's had to give up on that intent this week, with the pair raising to 11.80. We'll apply the same rationale as fresh FX hedging figures are released today: high FX sales figures are bad for SEK, as markets will speculate that Riksbank will run out of firepower sooner and won't be able to defend SEK in a challenging risk environment (like the current one).

We see risks for EUR/SEK to trade up to 11.90 next week if USD sales exceed USD 1bn again in today's figures. We now see an increasing chance that the Riksbank will expand its FX reserve hedging programme to support SEK.

Francesco Pesole

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

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@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.