

## FX Daily: Strong dollar exports higher US rates worldwide

After the hawkish 75bp hike from the Fed, today sees close to 10 central bank policy meetings around the world. As the dollar breaks new ground to the upside, most central banks will respond with large hikes. Recession fears are building and with the Fed set to hike a further 100-125bp this year, this all points to an even stronger dollar



### USD: Now or never

In spite of a market positioned for a hawkish outcome, the dollar still managed to rally 0.5-1.0% after last night's FOMC decision and a very hawkish set of Fed projections - both for inflation and the monetary policy response. James Knightley discusses these in detail [here](#). Dollar bears tried to jump on remarks by Fed Chair Powell that it would take a 'meeting-by-meeting' approach to its policy decisions but he was reasonably explicit later that the Fed was split between tightening by 100 and 125bp in the remaining two meetings of the year. In response, the market pushed the terminal rate expectations some 15bp higher - now seen at 4.65% in May.

A Fed pushing ahead with tightening while acknowledging recessionary risks has all the hallmarks (albeit smaller) of the early 1980s in the US when Paul Volcker was at the helm of the Fed. That period saw massive yield curve inversion as Volcker sent the economy into recession, and the dollar soared. If there were to be a mini-repeat of that environment, one would think the next 6-12 months would be it. And with the DXY now moving forward with some momentum,

long-term charts do not point to much resistance before 120 - some 7%+ higher than current levels. That would equate to EUR/USD and USD/JPY trading near 0.92 and 155, respectively. Food for thought.

Standing in the way of a move much higher in USD/JPY are Japanese government officials. They are openly discussing FX intervention now but have confirmed they have not intervened yet and could conduct stealth intervention. Given that the BoJ kept all its monetary policy levers on hold overnight (it is still pursuing Quantitative Easing!), we suspect Tokyo will struggle to get the FX intervention sign-off from Washington. This leaves Japan in the position of playing its weak intervention hand as noisily as possible. The market does not seem to be buying into this, where one month 25 delta USD/JPY Risk Reversals are suggesting the market is becoming less, not more concerned about intervention. In short, there seems no strong reason to think that 145 will prove a top for USD/JPY.

For today, a myriad of rate meetings around the world will remain the focus. Expect the dollar to remain bid on dips as confidence grows that deposit rates for the world's most liquid currency will push above 4% over the coming months.

DXY is flying. Expect corrections to prove shallow.

*Chris Turner*

## ➔ EUR: In the dollar's shadow

EUR/USD continues to grind to new lows of the year. As we have been discussing recently, yield differentials have not been playing a big role in EUR/USD pricing. It is more about the overall environment. Here, the Fed is leading the world's major central banks into more hawkish policy settings and making recessions more likely. As a relatively open economy with a large manufacturing base - and a war on its doorstep - the eurozone faces some major challenges this winter. In addition, the eurozone ran close to a EUR20bn current account deficit in July - a huge swing from traditional surpluses. We suspect EUR/USD continues to grind lower to the 0.9650 area over coming weeks.

Of the many central banks meeting today, the Swiss National Bank could be especially interesting. We are looking for a 75bp hike with a risk of 100bp. [We think the SNB is managing EUR/CHF lower](#) and if there is any spike in EUR/CHF back to 0.9550 today, we expect it to be sold into.

*Chris Turner*

## ➔ GBP: BoE to hike 50bp, sterling at risk

[The Bank of England is widely expected to hike 50bp today.](#) The hawkish BoE has provided little support to sterling this summer. Instead, fiscal concern is growing in the UK and tomorrow's 'fiscal event' could prove the trigger for another round of Gilt and sterling selling.

GBP/USD to continue grinding towards 1.10. And a difficult equity environment could see EUR/GBP edging back to the 0.88 area.

*Chris Turner*

## 📌 NOK: Norges Bank hike unlikely to turn the NOK around

In Norway, Norges Bank is widely expected to deliver another 50bp rate hike today, after signalling in August that more tightening in September would likely be required. With core inflation having continued to press higher, we expect NB to signal more tightening ahead, and we currently forecast another 50bp rate hike in November.

This may not have many implications for the krone's short-term outlook, as external drivers (risk sentiment and commodity prices above all) should remain dominant. EUR/NOK has rallied since the start of September as NOK's low liquidity left it highly exposed to risk sentiment swings, oil prices eased and Norges Bank announced a larger than expected daily sale of domestic currency for this month (NOK 3.5bn vs 1.5bn in August). We continue to see scope for a recovery in NOK around the turn of the year, but near-term downside risks remain significant, and a return to sub-10.00 EUR/NOK levels may not materialise for several more weeks.

Chris Turner

### Author

#### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

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