

FX Daily: The calm can be deceptive

Central bank action has helped risk assets and cyclical currencies but it's still too soon to call a bottom



⬇️ USD: Don't get carried away

Risk assets and cyclical currencies gained overnight. While the latest central bank actions (European Central Bank and Bank of England quantitative easing) might have materially helped, it is still too early to call for a bottom. The dollar funding squeeze remains a dominant theme in FX markets (here, although EUR/USD basis corrected, USD/JPY basis remains elevated at this point) and the global economic outlook remains highly uncertain, with clear downside risks. All monetary, fiscal as well as dollar liquidity provision policies need to go hand in hand and in a coordinated fashion to put a soft ceiling on indiscriminate or panic USD gains. In markets characterised by excessive volatility, the overnight gains of G10 currencies vs USD seem fairly muted compared to the significant losses these currencies experienced in past days and weeks. Hence, one should not get carried away.

➡️ EUR: Dollar funding squeeze apparent throughout the European FX complex

EUR/USD is partly reversing the collapse of the past two days, but unless market functioning returns to normal and USD funding concerns evaporate, cross upside should be fairly limited. The USD funding squeeze and its indiscriminate negative effect on markets manifested itself in

Denmark, where the up-to-now quasi safe haven (but low liquidity) Danish krone came under pressure and the central bank had to deliver a 15 basis point hike yesterday to defend the ERM II EUR/DKK trading band.

📈 GBP: Markets taking the glass half full approach to BoE QE

After the Wednesday fall, sterling stabilised and rebounded in spite of the Bank of England rate cut and QE announcement. Although the BoE QE may be seen as larger than initial expectations, given the bazooka delivered by the ECB on Wednesday, in relative terms the BoE QE does not necessarily stand out as too negative for GBP vs EUR. Still, and as we mentioned in [GBP: feeling the pressure point](#), the pound's outlook remains tricky in the current falling markets, which doesn't bode well for currencies with large funding needs.

📈 RUB & CEE FX: CBR on hold and focusing on FX interventions

In Russia, we expect CBT to keep interest rates unchanged today. Despite the worsening economic and inflation outlooks, the rouble being under heavy pressure during recent days means a high bar for a cut. Defensive hikes are fairly unlikely too, with [FX interventions being the preferred central bank tool](#) to lean against RUB losses. As for FX interventions, we expect this to become a new theme in the Central and Eastern European FX space. With the National Bank of Romania already in its usual full intervention mode, we expect the Czech National Bank to join the chorus soon (CNB having the largest regional FX reserves fire power). Poland's central bank might follow while the bar for FX interventions in Hungary is high. The size and credibility of potential CNB FX intervention means we expect CZK to start outperform Hungary's forint and Poland's zloty, after heavy koruna losses in past weeks.

Authors

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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>.