

## FX Daily: The unresponsive patient

Norway's krone remains under pressure despite three rate hikes this year, and unless the global economic outlook improves, we don't expect that trend to change



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### ➔ USD: Signs of weaker consumption soften the dollar

Broader gauges of the dollar are slightly softer over the last 24 hours after [US September retail sales unexpectedly declined](#). This did not fit with the narrative that low unemployment would insulate US consumption – the key driver of growth – from the slowdown from trade wars. The market now has a slightly higher conviction (84% priced) that the Federal Reserve will cut interest rates on 30 October. Ahead of that meeting, the Fed also last night released its [Beige Book](#) review of activity and prices across the 12 districts, which showed a softening in the outlook. Our team now feels the Fed will be cutting in October, December and January – which could start to take some of the shine off the dollar into early 2020. For the time being, however, unless we see some material improvement in US-China trade, Brexit and fiscal stimulus out of Europe – such that business optimism improves – we think the dollar can largely hold onto this year's defensive gains. For today, there are downside risks to the September US industrial production release, but it is not clear this will be enough to drive DXY through 97.85 support.

### ➔ EUR: Brexit and stimulus chatter provide some support

EUR/USD is pressing short term resistance at 1.1080, buoyed by some Brexit optimism and more persistent speculation that Germany would be willing to unveil substantial fiscal stimulus – should

it be required. That could lead us into a ‘bad news is good news’ environment, where for example a fall in German employment would see the euro rally on the view that fiscal stimulus is more likely. The 1.1080/1110 region looks like the top of a near-term trading range, above which volatility could pick-up since [EUR is trading like a funding currency](#).

## ➔ GBP: Nothing is agreed until everything is agreed

It seems we are very close to a new Withdrawal Agreement, but the DUP is understandably reluctant to compromise its unionist values. For today, an agreement would now seem a surprise (sending cable to press 1.2880/2900) and instead perhaps the most we can hope for is a political agreement and perhaps an indicative vote in UK parliament on Saturday. This means an A50 extension looks likely. Dare we say a 1.2650-2850 cable range is likely today?

## ⬇️ NOK: Rate hikes aren’t always supportive

Despite three rate hikes this year, the Norwegian krone remains under pressure and as [Petr Krpata recently highlighted](#) EUR/NOK has moved into the 10.10/20 area. Unlike other central banks, Norges Bank may not welcome this currency depreciation, but unless we see a decisive turn in the global activity outlook (e.g. concrete improvement in US-China trade tensions or clear moves towards fiscal stimulus in Germany), the activity-driven NOK may struggle to turnaround. Year-end downside pressure on local interbank rates may add to the pressure on the NOK and we may need to adjust our three-month EUR/NOK forecast of 10.15.

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