

## FX Daily: Tighter monetary conditions favour the dollar

The Swedish Riksbank today kicks off a busy week of central bank policy meetings, which should see chunky 75bp hikes in many countries. Central bankers pressing more firmly on the monetary brakes will only invert yield curves further, provide greater headwinds to risk assets and keep the dollar bid near the highs



### **USD: Busy week for central bankers should keep the dollar bid**

It is a really busy week for central bankers, with policy meetings occurring in the US, UK, Japan, Switzerland, Sweden, Norway, Brazil, the Philippines, Taiwan and Indonesia to name but a few. Rate hikes are expected in all but Brazil (rates are already at 13.75%) and Japan.

As usual, most attention will be given to Wednesday evening's FOMC announcement. There are many moving parts to this meeting, including the size of the hike, the Fed statement, new forecasts, and the press conference. Please see our detailed FOMC preview [here](#). There seems no reason for the Fed to soften the hawkishness shown at the recent Jackson Hole symposium and a 75bp 'hawkish hike' should keep the dollar near its highs of the year.

We also again take note of the extreme (near 50bp) inversion in the US 2-10 Treasury curve. With short-end yields expected to stay supported near 4%, the risks are that US 10-year Treasury yields push on to 3.75%. Typically that would be expected to drag USD/JPY back to the 145 area, where Japanese authorities have their finger on the FX intervention trigger. The prospect of Japanese intervention should keep USD/JPY implied volatility supported in spite of its recent dip.

One final point here. Tighter monetary policy around the world will increase the headwinds for risk assets - after all, central bankers are deliberately trying to slow aggregate demand. This should again play into the hands of the anti-cyclical dollar and one which now pays over 3% p.a. on a one-month deposit.

Expect a quiet, pre-FOMC session today, where softer housing starts or building permits August data look unlikely to impact market pricing of the Fed tightening cycle - currently pencilling in a peak near 4.50% next spring. DXY should stay bid in a 109.50/110.00 range.

*Chris Turner*

## ➔ EUR: Will the eurozone current account fall back into deficit again?

EUR/USD continues to consolidate near parity, while the European Central Bank's trade-weighted euro index is about 1.8% off the lows seen in late August. A lot of the move in the trade-weighted euro will be a function of weaker sterling. But at the very least, the ECB will be pleased that its hawkish overture has put a brake on euro losses. For today's session, the only eurozone data of note will be the July current account data. The balance may well dip back into a monthly deficit on the weak German data and will prove a reminder that the energy crisis has wiped out the eurozone's traditionally large current account surplus.

In Europe, this week will all be about rate meetings outside of the eurozone. Today's session should see Sweden's Riksbank hike rates at [least 75bp, if not 100bp](#). There may also be some focus on what the Riksbank plans to do with its much-criticised [FX reserve accumulation plan](#), which currently sees the Riksbank buying around SEK12bn of FX each month. We think it unlikely, but any surprise slowing in the FX-buying amounts could see EUR/SEK dip a little. Otherwise, a difficult external environment can continue to see EUR/SEK trading near 10.80/85.

*Chris Turner*

## ➔ GBP: A big week for UK's monetary and fiscal mix

UK institutions today reopen for business after respecting a period of mourning for the late Queen Elizabeth. It is going to be a busy week for both monetary and fiscal policy. On the former, we look for another 50bp hike from the Bank of England on Thursday. And Friday should see a mini-budget from the new UK chancellor, Kwasi Kwarteng. He has already positioned himself as going for growth and the mini-budget should provide details on the £100bn+ energy support package plus another £30bn+ of tax cuts.

Normally loose fiscal and tight monetary policy would be good for the pound. However, it seems that foreign investors are concerned as to how government support will be financed - with the fear that this will largely come through an additional supply of UK Gilts. Unnerving was also the removal by Chancellor Kwarteng of permanent Treasury Secretary Tom Scholar, which raised

doubts about policy orthodoxy.

A difficult external environment and concerns as to how a government spending spree will be financed leave sterling vulnerable. Cable can easily sink back to 1.1350 and should remain offered this month, while the former resistance level of 0.8720 should now prove support to EUR/GBP as it edges up to 0.8800.

*Chris Turner*

## CEE: EC decides on Hungary rule of law probe

Another [busy week](#) in Central and Eastern Europe lies ahead of us, full of Polish numbers. Today, we will see industrial production, PPI and the labour market data for August. Our Warsaw team expects a slight acceleration of industrial production in the year-on-year number in line with expectations amid the less negative impact of the number of working days. The labour market data should show faster employment growth but a slowdown in wage growth, which was boosted in July by a one-off offset from higher inflation in some sectors. Polish retail data will be released tomorrow and Hungarian and Polish unemployment numbers on Thursday and Friday.

The number one topic will continue to be the negotiations between the Hungarian government and the European Commission. On Sunday, the EU proposed suspending EUR7.5bn from its budget earmarked for Hungary over accusations of corruption and fraud. For this week, several speeches from Hungarian officials are on the calendar and a key decision from the European Commission should come on Thursday. Of course, we cannot expect the end of the story, but rather a move to the next stage. In the Czech Republic, the blackout period ahead of the September Czech National Bank meeting will start on Thursday and we could hear from MPC members before then, but indications so far suggest that nothing has changed on the dovish approach and rates can be expected to remain unchanged.

In the FX market, the situation has not changed much over the past week. The main driver remains gas prices and in the case of the forint, the EU story adds to this and will set the direction, especially this week. However, the fall in gas prices over the last three days should provide favourable conditions for the CEE region. And if the trend in gas prices continues, we could see new gains for the Polish zloty below 4.70 EUR/PLN and Czech koruna below 24.50 EUR/CZK this week.

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