

FX Daily: U-turn on the pound

The pound has reversed back to pre 'fiscal event' levels on news of a policy U-turn. A holiday in China this week might introduce slightly calmer conditions to FX markets, but prospects of another solid US jobs report on Friday should keep the dollar bid on dips



➔ USD: FX intervention can only slow, not reverse trends

We are focusing on four points this morning. 1) [The potential for OPEC+ supply cuts](#). 2) FX intervention from Japan and possibly China too. 3) The close first round elections result in Brazil and 4) the prospects for Friday's US jobs report.

Media reports suggest OPEC+ (meeting Wednesday) will push for a 1mn barrel per day cut in production. Oil experts will have to tell us why the Saudis will want this, but suffice to say it seems President Biden's visit to the region this summer has failed to deliver the desired supply increases. Indeed, it is a strange period when OPEC+ may be looking at a large supply cut while the US is still selling strategic petroleum reserves. The prospects of an OPEC+ supply cut may offer some brief support to the beleaguered Canadian dollar and Norwegian krone, but given a challenging risk environment, we doubt these high beta currencies can hold any near terms gains.

Friday saw Japan announce that the central bank had bought close to US\$20bn of yen in its

intervention late last month. Remember this was the first yen buying since 1998. This will be the start of a campaign from Japanese authorities who can only hope to slow, not reverse the USD/JPY uptrend. Indeed, USD/JPY traded up above 145 again overnight and we should probably expect more intervention around these levels shortly. On the subject of intervention, China may well have intervened above 7.20 in USD/CNY last week. Unlike the Japanese, Chinese authorities do not report FX intervention activity. It is a holiday this week in China, so the 7.20 level may not be challenged again until next week.

Sunday's Presidential vote in Brazil saw a much closer vote than expected. A run-off will be held between Lula and Bolsonaro on 30 October. Some are saying that Brazilian assets should rally on the news that Bolsonaro has a better chance of retaining power than initially thought. However, the much closer vote than expected leaves open the prospect of a disputed election outcome. As we have seen in the UK recently, the external environment is very unforgiving at the moment. And with reports of \$70bn of portfolio flows having left emerging markets this year, another month of campaigning and the prospects of a close vote could see USD/BRL make a run at 5.60.

Finally, the highlight of this week's US data calendar will be Friday's release of the September jobs report. [Our team looks](#) for a solid 200k increase in jobs and the unemployment rate staying low at 3.7% - both pointing to another 75bp hike from the Federal Reserve on 2 November.

DXY has corrected around 2.5% from its highs seen last week. We are in the camp favouring stronger levels later this year and feel that this correction under 122 will be short-lived.

Chris Turner

➔ EUR: PMIs in focus

Today will see the final September PMIs for the eurozone, with the manufacturing component expected to remain near 48.5, in contraction territory. News that OPEC+ wants to increase oil prices will not be welcomed across the region. Equally weekend reports suggest that what little remains of Russian gas exports to Europe may dwindle as well - e.g. Italy. As in the UK, the focus in the eurozone is also shifting to the size of fiscal support packages and whether local bond markets can easily digest them.

EUR/USD is holding its gains from last week after the Bank of England stepped in to stabilise the Gilt market. One could argue that intervention (both FX from Asian authorities and in the bond market from UK authorities) is delivering this pause in the dollar's bull trend. But the macro factors which are driving it remain firmly in place and 0.9850/9870 could prove the limit to the current EUR/USD bounce. Favour a retest of 0.95 in October.

Chris Turner

➔ GBP: Policy U-turn

As we go to publication, GBP/USD is just enjoying another leg higher on reports that the Liz Truss government will formally reverse its planned abolishment of the 45% income tax bracket. Our UK team feels this move is rather symbolic, being less about the amount of money it will save (low billions) and more about the poor signal it had delivered of ideological (unfunded) tax cuts. The move looks driven by a backlash from her own party and perhaps the threat of a sovereign rating downgrade, where the S&P rating agency on Friday shifted the UK outlook to negative from stable

in an unscheduled move.

We will not be churlish here and say this will not affect the pound. Yet cable has today returned to levels seen just before Chancellor Kwasi Kwarteng delivered the infamous 'fiscal event' and it would now be hard to argue that cable should be trading much higher than that. But this does alleviate the risk of cable trading to parity in that it shows Downing Street will show greater respect to financial markets when considering policy options. Maybe we see a new cable trading range of something like 1.1000-1.1350. EUR/GBP may find support under 0.8700 now.

Chris Turner

CEE: Second-round of central bank decisions

We start this week with PMIs across the region. In Poland and the Czech Republic, we expect further declines to new record lows since Covid levels. In Hungary, on the other hand, we expect a slight improvement. The Polish and Romanian central banks will meet on Wednesday, following the [National Bank of Hungary](#) and [Czech National Bank](#) last week. In Poland, we expect a 25bp rate hike to 7.0%, the same pace as in September, in line with surveys. However, [inflation](#) released on Friday surprised significantly to the upside and investors moved to the hawkish side of the market. In Romania, we expect a 50bp rate hike to 6.0%, in line with surveys. The central bank already slowed the pace of rate hikes in August, and we expect the same this week. Industrial production and retail sales data for August in the Czech Republic and Hungary will be released on Thursday and Friday. With the exception of Hungarian retail sales, we [expect](#) an improvement in year-on-year figures. However, the higher number of working days than last year is playing into the hands of both countries this time.

On the FX side, this week we will continue to follow the gas story and the geopolitical situation. However, at the end of last week we saw gas prices fall again, EUR/USD higher and interest rate differentials rise across the region under pressure from weaker FX. Altogether, we think this week should lead to a calming of the situation and erase some of last week's losses. We see the Hungarian forint as the most undervalued at the moment. This week, the NBH will launch the previously introduced [measures](#) to withdraw excess liquidity from the market, which we believe will bring calm and the forint should return to 410 EUR/HUF. The Polish zloty from earlier in the week should benefit from the recent increase in rate differentials after Friday's CPI and return closer to 4.80 EUR/PLN. However, Wednesday's National Bank of Poland meeting should bring disappointment to the markets and leave the zloty in the current range. We expect the Czech koruna to return to the 24.60-70 EUR/CZK intervention band after the closing of short positions connected to the CNB meeting last week. In the second half of this week, we should see in the data how much the central bank spent last week when the koruna came under pressure for the first time since the August CNB meeting, which should tell us more about the sustainability of the current FX regime.

Frantisek Taborsky

Authors

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

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>.