

FX Daily: UK authorities try to buy time for the pound

September has proved an exceptional month for the dollar. In the G10 space, the dollar has rallied anywhere from 1% against the Swiss franc to as much as 7% against sterling. Events in the UK highlight the pressure-cooker conditions facing non-USD currencies. Expect a day of consolidation today and a focus on central bank speakers in the US, UK, and Europe



➔ USD: An array of Fed speakers today

Monday was a wild day in FX markets. Sterling was falling heavily and the dollar was firmer across the board as both bond and, to a much lesser degree, equity markets were under pressure. G7 FX volatility is now back to levels last seen in March 2020. Interestingly EMFX volatility is higher too, but still below the highs of this year. Sterling is clearly making a difference here.

The narrative remains the same. Central bankers remain wholly focused on taming inflation – even at the expense of recession. We think last week's economic's projections from the Fed will still take some time to sink into the market's consciousness. The Fed projects that the US unemployment rate will rise to 4.4% by the end of next year from 3.7% today - but will still be raising rates to

4.50/4.75% in the process. Overnight the Fed's Loretta Mester reiterated that a more restrictive policy was needed for longer. Mester was also asked about the strong dollar and understandably replied that the Fed does take it into account when setting policy and also looks at the dollar's impact on financial market volatility. On the latter subject we suspect the 12 October meeting of G20 central bankers and finance ministers will garner more attention than usual – e.g. does the FX language in the Communique get tweaked to express concern over disorderly FX moves?

For today's session, the focus will be on Fed speakers and second-tier data. On the roster, we have Evans (0930, 1115CET), Powell (1330) and Bullard (1555). We also have durable goods orders, new home sales, and consumer confidence. Any upside surprise in US consumer confidence only makes matters worse for the rest of the world, in that the Fed will have to tighten harder to bring aggregate demand lower.

DXY may hold support at 113.00 since we look to be in a powerful phase of a dollar bull trend.

Chris Turner

➔ EUR: One way traffic

EUR/USD touched a new low for the year near 0.9550. Looking at a EUR/USD chart it has been pretty much one-way traffic since the summer of 2021. Question: what changed then? Answer: The Fed, which shifted from its super-dovish experiment with average inflation targeting to more conventional tightening. Events in Ukraine have only managed to cement the Fed's inflationary concern while hitting Europe's growth prospects. In short, do not expect a turn in EUR/USD until the Fed's work is done – and that doesn't look like it's happening until 1Q23 at the earliest. Separately, European growth prospects remain challenged as clearly demonstrated in some very concerning [German IFO data released yesterday](#).

Expect intra-day EUR/USD rallies to stall in the 0.9700 region again and we doubt much hawkish ECB speak makes much difference here.

Elsewhere, we still like EUR/CHF lower. The dollar is the second-largest weight in the Swiss National Bank's (SNB's) Swiss franc trade-weighted index. A higher USD/CHF means the SNB will tolerate a lower EUR/CHF as it seeks to guide the nominal Swiss franc stronger. 0.93 is the direction of travel for EUR/CHF.

Chris Turner

➔ GBP: Buying time for the pound

For a major reserve currency, it is typically hard to maintain these high levels of volatility for prolonged periods – but sterling may well try to defy that. We say that because UK policymakers have tried to buy time for the pound by: a) the UK Treasury promising a proper budget assessment on 23 November from the Office for Budget Responsibility (OBR) alongside a medium-term fiscal plan and b) the BoE promising to take all market moves into account when it decides on monetary policy on 3 November.

But six-to-nine weeks is a long time in FX markets and on Monday investors were disappointed about the lack of an emergency rate hike from the BoE. [We had felt](#) that the BoE would prefer to avoid getting sucked into defending the pound with rate hikes.

The delay in a policy response until November, therefore, leaves sterling vulnerable – though we would prefer to describe it as sterling finding the right level such that the Gilt markets clear. We are not sure we are there yet, however. FX markets feel like the dollar is going into early 1980s overdrive territory and barring a stark reversal in hawkish Fed expectations or slowing growth dynamics, we would say Cable could retest 1.0350 over the next month.

UK markets will now be hyper-sensitive to any communication from UK policymakers. Today at 13:00CET sees BoE chief economist, Huw Pill, speak on the well-timed subject of 'Economic and Monetary Policy challenges ahead'. We doubt he will offer more than what was in [yesterday's BoE statement](#), but on a day in which the dollar is consolidating, GBP/USD could trace out something like a 1.07-1.09 range.

Chris Turner

HUF: Is the hiking cycle coming to a peak?

The National Bank of Hungary's (NBH) monetary policy meeting takes place today and we expect another strong 75bp rate hike to 12.50%. Surveys are leaning more towards a 100bp step but market pricing is a bit more complicated. Short-term expectations in the one-month horizon (1x4 FRA) are pricing in just over 150bp, however they do include the October meeting as well. On the other hand, market expectations have cooled in recent weeks and while the terminal rate was still priced in at around 14.50% in early September, at the moment markets are expecting the peak of the hiking cycle to be just over 13.50%. Thus, it should not be a problem for NBH to support hawkish expectations.

On the other hand, since the publication of [our preview](#), we have heard several statements from NBH officials that the hiking cycle is coming to an end. From this perspective, this would make our 75bp hike call look hawkish. However, the forint is once again approaching the 410 EUR/HUF level and a dovish surprise would not be good news for the forint. Moreover, markets are increasingly questioning whether Hungary will get an injection of EU money, which Fitch highlighted as a risk to the sovereign rating on Friday, and more headlines should emerge in the coming days. So overall the picture is very mixed and it is hard to find a clear path on what to do next. However, our call for today's NBH decision should mean positive support for the forint.

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

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