

FX Daily: Up and down - a big week for policy rates and currencies

There are a plethora of central bank policy rate meetings this week across the developed and emerging market economies. Rates could be raised as much as 500bp in Turkey, cut 50bp in Brazil, raised 25bp in four G10 economies, and left unchanged in the US. Our baseline assumes that the dollar holds onto its strength through the week



USD: Dollar looks likely to hold gains

It is a big week for policy rate meetings, with six of the G10 central banks in action. Setting the tone for global markets will be Wednesday's FOMC meeting. Here, [our team sees a resolutely hawkish Federal Reserve](#), where despite unchanged rates the Fed, through [its statement and dot plots](#), will hold out the possibility of one further hike to the 5.50-5.75% range later this year.

Even though we should see 25bp rate hikes across four European central banks through the week - see below - we doubt the dollar has to lose much ground - if any. The prospect of a prolonged period of unchanged rates is depressing US interest rates and cross-market volatility and leaving carry trade strategies very much en vogue. This - plus Brent trading close to \$95/bbl - is keeping the likes of USD/JPY bid and few expect any substantial move in Bank of Japan policy this Friday. If there is to be a further move from Japan - it will likely come in late October when new economic forecasts are released.

It is also a big week for policy rate meetings in emerging markets. In EMEA, the highlight will be whether the Central Bank of Turkey delivers another large hike on Thursday (+500bp expected) in a continuing return to policy orthodoxy, while Brazil should cut rates another 50bp in line with recent guidance. Given the strong interest in the carry trade this year, both the Turkish lira and Brazilian real could stay supported despite these diverging rate stories.

Elsewhere, Asia sees several [rate meetings this week](#), but change is expected in neither China's Loan Prime Rates nor policy rates elsewhere in the region.

DXY remains relatively strong and there does not seem a case for a decisive turn lower this week - unless we are all surprised by the Fed. There is a strong band of resistance in the 105.40/80 area, which may well cap this week. But equally, DXY should continue to find decent demand below 105.00.

Chris Turner

⬇️ EUR: Soft week culminates in the flash September PMIs

EUR/USD continues to trade in a listless fashion after [last Thursday's European Central Bank meeting](#) sent it lower. It will mostly be driven by the Fed story this week, but Friday's release of flash eurozone PMIs for September could produce another dose of poor news for the region and the currency. EUR/USD has decent support in the 1.0610/30 region, below which there is an outside risk to the 1.04/05 area. However, our strategic view remains that the US economy will converge on the anaemic growth in Europe next year and that the dollar will weaken.

We would see a dip to the 1.05 area over the coming weeks as an opportunity to reset hedges ahead of seasonal dollar weakness in November and December this year.

Elsewhere in Europe, we are expecting 25bp rate hikes in Switzerland, Sweden and Norway - all on Thursday. The key differences between these currencies are: a) characteristics, where the Scandis are high beta 'growth' currencies, the Swiss franc is more defensive, and b) central bank involvement where the Swiss National Bank is guiding the franc stronger through FX intervention. CHF/SEK and CHF/NOK have rallied 10% and 13% year-to-date, respectively, and we cannot see these trends turning until time is called on the Fed tightening cycle.

Chris Turner

➡️ GBP: 25bp BoE hike widely expected on Thursday

Economists are near unanimous in forecasting a 25bp Bank of England rate hike on Thursday. This would take the Bank Rate to 5.50%. However, the market has massively scaled back expectations for any future tightening and will therefore be very interested in the BoE's statement as to whether language like the following is retained: 'If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required.'

What happens in the August UK CPI - data released tomorrow - will also have a bearing.

We are sure that the Bank of England will have looked with interest as to how the euro reacted last week after the ECB effectively said that its tightening cycle was over. Any hints on Thursday that the UK policy rate was something like 'sufficiently restrictive' would most like hit the pound. We are slightly negative on sterling later this year on the view that the 2024 BoE easing cycle will be

larger than currently priced. But we will take our cue on the timing of this sell-off from Thursday's BoE statement.

Chris Turner

📈 CEE: CNB's last words before blackout period

This week in the region will be all about the global story but we will still see some interesting numbers and central bank speakers. Today in the Czech Republic, the PPI numbers will be released, the last data before the CNB meeting next week. In Poland, we will see core inflation for August. Our economists expect a drop from 10.6% to 10.0% year-on-year, slightly below market expectations. On Wednesday we get industrial production, PPI, and labour market numbers in Poland. The industry is likely to report another 2.5% YoY decline for August, more than the market expects. And on Thursday, we will see retail sales in Poland. Also on Thursday, the Turkish central bank meets and we expect another rate hike from 25% to 30%, after a surprisingly large rate hike in August.

We should also hear from a few central bank speakers this week. In the Czech Republic, the blackout period before the September meeting starts this week on Wednesday, so we expect more speakers in the media in the coming days. We have already heard from some last week. Most recently, the CNB governor said over the weekend that markets should forget about rate cuts anytime soon. Also in Hungary, the central bank is reaching a breaking point and we could hear more from central bankers in the second half of the week. On the sovereign rating side, Moody's is publishing a review of Poland on Friday. However, this should be a non-event this time.

In the FX market, we saw confirmation of weaker levels for CEE last week and it is hard to see much change this week. On the other hand, the market seems to have already built strong short positions in the Czech koruna and Polish zloty. Thus, we could see some new gains in the Czech Koruna after a pushback from the CNB against the dovish market pricing. This could push the koruna back towards 24.50 EUR/CZK. Also, market rates in Poland indicate that we should not see more weakness this week but rather a stabilisation around the current 4.65 EUR/PLN. However, EUR/USD will of course take centre stage in the second half of the week and will be the main driver.

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