

## FX Daily: Watch the liquidity factor

The proximity to the US election can favour more deleveraging in FX, raising risks that less liquid currencies will face the pressure reserved for Trump-risk proxies. The US macro calendar picks up with September job opening data today. Reversing the August jump is a necessary, but perhaps not a sufficient condition to temper the dollar momentum



Sterling is in full wait-and-see mode ahead of tomorrow's Budget announcement by Chancellor Rachel Reeves

### USD: Data tests start today

In our latest [FX-US election note](#), we discussed the risk of a liquidity dry-up into 5 November as the binary nature of the vote could trigger wider deleveraging across the currency market. Indeed, the performance since the weekend in G10 suggests there is both a liquidity component and more Trump hedges driving FX at the moment. The group of more liquid/less Trump-exposed currencies (USD, EUR, CHF and GBP) is outperforming those that are less liquid and more sensitive to protectionism (AUD, NZD, NOK and SEK). We suspect this dynamic will continue in the coming days.

The yen is playing the outlier role, being the developed currency with the greatest influence from domestic events. Speculative shorts on JPY are rising further after the ruling coalition lost parliament majority: now, the focus is back on the level at which authorities will want to put a stop

to the USD/JPY rally. Remember that the latest round of FX intervention was initiated right after a JPY-positive market event. Following a similar script, the Minister of Finance may not have a line in the sand for the pair (for example 155.0), but perhaps adopt a more opportunistic approach based on market moves. Anyway, risks of further JPY near-term selling remain elevated into Thursday's Bank of Japan meeting and the US election next week.

On the US macro side, today's release of September's JOLTS job openings data can distract markets from election trades. The recent hawkish trend in the USD swap curve pricing can realistically be inverted only with evidence of a softening jobs market, meaning we would need to see job openings reversing the August jump from 7.7m to 8.0m. The consensus is for the series to flatten at 8.0m. The calendar also includes the Conference Board Consumer Confidence index, which is expected to have inched higher in October, and September's wholesale inventories.

Failing to see the US macro story deteriorate this week can pave the way for further dollar gains on the back of US election hedges and broad-based deleveraging. We retain a dollar-positive bias, and wouldn't be surprised to see DXY close to 105.0 on Election Day.

*Francesco Pesole*

## 📌 EUR: Helped by deleveraging in less liquid currencies

As discussed in the USD section above, when liquidity becomes a discriminating factor in FX, the euro can find some support in the crosses. Part of such support may come from the unwinding in Nordics FX positions that are generally traded vis-as-vis the euro. We remain on the lookout for any sharp underperformance of NOK, which is often a thermometer of FX liquidity conditions.

On the domestic side, we heard unusually hawkish-leaning comments by a neutral Governing Council member (Luis de Guindos) yesterday – which is bucking the otherwise dovish trend in post-meeting ECB communication. Guindos stressed how the inflation outlook is “surrounded by substantial risks”, which lifts some emphasis from growth concerns and risks of undershooting the inflation target.

Guindos' comments are not enough to turn the tide in the dovish repricing across the EUR curve, and the USD:EUR two-year swap rate spread remains at the widest since April, around 160bp (70bp wider than a month ago). That remains consistent with further pressure on EUR/USD, and despite risks now looking more balanced for the pair, they are still tilted to the downside in the near term. The eurozone and ECB speaker's calendar is empty today.

*Francesco Pesole*

## 📌 GBP: No risk premium ahead of UK Budget

Sterling is in full wait-and-see mode ahead of tomorrow's Budget announcement by Chancellor Rachel Reeves. There are two technical factors to consider ahead of a potential market-adverse reaction in the pound tomorrow.

First, there is no political risk premium priced into sterling at the moment, with our model returning a short-term EUR/GBP fair value at 0.834. Remember that in previous instances of political/gilt-related turmoil in the UK, the EUR/GBP risk premium was around 3-5%.

Secondly, the latest CFTC figures show speculators are still extensively long on the pound. As of 22

October, net-long GBP positions were the largest in G10 (32% of open interest), having resisted the rotation back into the dollar observed in other developed currencies.

GBP/USD continues to look vulnerable ahead of tomorrow's Budget event and next week's US election, and risks remain skewed to a move to 1.2800-1.2850.

*Francesco Pesole*

## 📌 CEE: Polish government to discuss higher budget deficit

The calendar will become more interesting tomorrow. However, the Polish government is expected to today discuss an increase in the state budget deficit for this year following weaker tax revenues and higher flood-related spending. Newspaper speculation most often mention an increase of around PLN30bn of additional borrowing needs, which corresponds to roughly 1-1.5x the monthly supply of POLGBs at the moment. Also, a POLGBs auction is scheduled for today and MinFin will test market demand after weak demand last week, but at the same time bonds have been posting a bit higher yield since then.

The Czech market is back from a public holiday and we will likely see more CNB comments today or tomorrow ahead of Thursday's blackout period. The CZK came under pressure yesterday since domestic demand has been missing from the market while the currency has been catching up with the weakness of CEE peers in the previous days. EUR/CZK stood above 25.350 for the first time in two weeks. Still, the CNB forecasts 25.20 on average for the fourth quarter and the weakening in recent days should not be a major factor in the November decision.

Overall, we see that the CEE region remains under pressure and, as mentioned earlier, we don't expect much change here pending the outcome of the US election. At least a stabilisation of EUR/USD could bring some relief to CEE currencies. Overall though, the focus remains on EUR/HUF, which closed at new highs yesterday, heading slowly towards 405. EUR/PLN will be watched as the market accepts the increase in the state budget deficit and the outcome of the POLGBs auction.

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