

FX: Elephants in the ECB room

The October ECB meeting takes centre stage this Thursday so how might what President Draghi says weigh on the forex markets?



⬆ EUR: Draghi to dance around Italy and Brexit

The attention shifts from Rome to Frankfurt today as the October ECB meeting takes centre stage. As ING's Carsten Brzeski [aptly laments](#), what a difference six weeks can make. If anything, the downside risks to the Eurozone growth story have increased (as the latest PMI readings show). Stock market turmoil, mixed hard data for the month of August and further tensions in emerging markets have added to what the ECB often calls 'global risks'. And that's without talking about the big elephants in the room (the Italian budget and Brexit stalemates).

Still, we don't expect any shock U-turn on the ECB's plans to end QE at the end of 2018 – and while one can expect a slightly more dovish Mario Draghi today, we note that a lot of bad news is already priced into the single currency. Hence, we may need to see a very strong dovish signal from the ECB chief today – one that maybe opens the door to a U-turn on the end of QE – for the EUR to drop much further from here. This seems highly unlikely in our view – and so look for EUR/\$ to find support around 1.1390-1.1400 from a nonchalant Draghi today.



USD: Widening US current account deficit will become harder to fund in 2019

While central bank meetings outside of the US will dominate the agenda today, tensions between President Trump and the Federal Reserve remain one of the big stories in the central banking world right now. In some way, US checks and balances – and in this case the Fed's 2% inflation target – is helping to stem any major fallout from the President's remarks of late. Still, with the speculative FX market positioned heavily long USDs, these comments make us nervous when it comes to the thinking about the durability of any USD move higher. From a fundamental perspective, huge US budget and current account deficits do not really help the USD – and today we'll be watching the Sep US goods trade data today (which may see the deficit widening to a record high if it breaks \$76bn).

➔ NOK: Non-event Norges Bank meeting may still see some marginal FX upside

The Norges Bank meeting today will be a non-event following the dovish hike in the previous meeting. The bank is neither delivering new forecasts nor holding a press conference – and its statement is likely to remain largely unchanged. But solid price pressure evident in the September figures, combined with a weaker exchange rate and rising oil prices, suggest upside risks to the NB policy stance next year (currently the central bank only envisages two hikes in 2019 with the risk in our view being skewed to three rate increases). Still, we expect EUR/NOK to remain above the strong horizontal support level of 9.40 in the short-term.

➔ TRY: Markets expect the CBT to pause after big front-loaded hike last month

ING's Muhammet Mercan writes in his preview note that after the 625bp front-loaded hike last month and the recent lira strengthening feeding optimism that geopolitical risk for Turkey has been improving, we expect the central bank to stay on hold today (1200 BST). However, given the significant deterioration in price-setting behaviour (as observed by the big inflation surprise in September) and forward-looking inflation expectations, a further adjustment in monetary policy to push the ex-post real policy rate back to positive levels can't be ruled out. No hike from the CBT today shouldn't have too much of an impact on the lira given that 25 out of 29 analysts expect this. \$/TRY likely to stay below 5.80.