

FX: It's the wrong time for carry

Global equity markets have had a good year despite slowing growth and trade uncertainty. But stocks are typically one of the last asset classes to turn in the cycle and this shoe may drop later this year. Lower equities typically coincide with higher levels of volatility, undermining one of the key inputs to the carry trade



falling stocks

📈 USD: It's hard to argue against the dollar in the short term

It seems quite strange that most global equity markets have had a good year – even as trade uncertainties have grown and inverted yield curves increasingly point towards stalling/recessionary levels of growth. Typically, however, equity markets are one of the last asset classes to turn in the cycle and this shoe may drop later this year if corporate earnings guidance and profits re-align with expectations of activity. Lower equities typically coincide with higher levels of volatility, undermining one of the key inputs to the carry trade. Additionally with so many event risks, such as trade escalation and European politics, we suspect investors will increasingly focus on capital preservation rather than the search for yield. This all points to continued support for the dollar, unless the trade conflict is resolved or the Federal Reserve surprises with a much more aggressive easing profile – neither of which looks imminent. In our latest [FX talking edition](#), we therefore take a defensive view in the currency markets over the next one to three months, seeing the dollar bid versus emerging markets and the Japanese yen subject to

outperformance, if the deterioration in trade and activity takes its toll on equity markets. For today, the calendar is quiet and the dollar index should stay bid in a 97.50-98.50 range.

↓ EUR: All the good news quickly prices in Italy

News that Italy can (probably) avoid early elections has been welcomed by the bond market and narrowed the 10-year BTP-Bund spread into levels last seen last summer. We'll find out this morning whether the Democratic Party (PD) and the Five Star Movement are happy to form a government – although this is by no means assured. It's unclear whether spread narrowing has much further to run and heavy Italian supply later this week won't help either – all suggesting the euro won't get much of an uplift from any Italian news. Instead, the escalation in trade wars merely looks to extend the slowdown in manufacturing, depressing European growth still further. Like all activity currencies, the euro looks soft and could break down to new lows at any time. EUR/USD support at 1.1025/50 looks vulnerable.

➔ GBP: Brief support as legislative efforts build to block no-deal

Rather than a no-confidence vote in the Johnson government, the return of parliament next Tuesday looks set to see an anti No-Deal coalition pursue the legislative route – trying to gain time in the parliamentary agenda for an emergency debate. This may trigger a brief reprieve in GBP selling, although we're still wary that EUR/GBP trades as high as 0.95 into October. For today, any suggestion that the legislative route has legs could see EUR/GBP break under 0.90.

↓ ARS: Argentina keeps Latam on the back foot

The Argentine peso softened again yesterday as the market awaits news from the IMF's visit. While we expect the next IMF tranche to be approved, the outlook for the ARS remains dim and high inflation looks set to send USD/ARS to 70 on a three-month view.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@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 www.ing.com.