

## FX: Limited dollar support to fade soon

From the dollar to the yen to the Austrian electoral impact on the euro



### USD: Overnight trends short-lived

Although USD has recovered somewhat after the lower than expected US September CPI on Friday, due in part to Chair Yellen's comments over the weekend about the anticipated acceleration in inflation and subsequent rate hikes, we expect the overnight trend to be fairly short-lived and limited in coming days. This is because:

- Markets already assign a large probability (70-80%) to a December rate hike;
- Limited US data this week that could move USD meaningfully higher.

As a result, expect the recent general recovery of the Emerging Market currencies to continue.

### EUR: Look beyond the Austrian elections

Despite the headline-grabbing outcome of the Austrian elections on the back of the rise of local populism (the right-wing FPÖ made it to third place, grabbing around 26% based on preliminary estimates - see [Austria: Next stage of populism](#) on our research website [THINK](#)) we don't expect it to have a long-lasting negative impact on the EUR.

While the outcome, similar to the German elections a few weeks ago, suggests a further slowdown of eurozone integration, we see the upcoming ECB's exit from the extra loose unorthodox monetary policy stance (starting with QE tapering first, and later followed by the normalisation of the deposit rate second) as the more important driver of EUR. This is evident in

the fairly limited downside moves in EUR/USD risk reversals recently. And like the immediate post-German election period, don't expect the potential political concerns driving EUR weakness to last. For today, EUR/USD should broadly trade around the 1.1800 level.

## JPY: A focus on the upcoming election

Focus turns to the 22 Oct Japanese election with latest polls suggesting that PM Abe is heading for a big election win - giving Abenomics the thumbs up. With the dollar's short-term luck running out, USD/JPY looks to remain in consolidation mode.

## PLN: Justified zloty rebound to continue

We should see an improvement in the Poland August current account and trade balance (both with respect to the previous readings and the consensus expectation). This should be marginally positive for the zloty and should reiterate the trend of the PLN rebound from what we always perceived as oversold levels (due in part to the low probability of the potential Article 7 related sanctions).

Today, expect EUR/PLN to stay below 4.25.