

FX: Much ado about mid-terms

Everything is at play before the mid-term election results come in tomorrow. A Democrat blue wave of a win in both chambers might be tougher for the risk environment, where the market would turn to the politics of impeachment. If the Republicans surprisingly hold Congress, the dollar, equities and Treasury yields would get a lift on the promise of Trump 2.0



Source: Shutterstock

📉 USD: Consensus expects Democrats to take the House and USD to soften

The FX option market prices around a +/- 70 pip move in EUR/USD on the back of US mid-term results, which should be known around 09/10CET tomorrow morning.

The latest polls suggest Democrats have a good chance of winning the House and the Republicans have a good chance of retaining the Senate. Most analysts believe that scenario will see the dollar and US rates dip on the view that chances for any further US fiscal stimulus are curtailed. That is seen as a positive for those emerging market currencies undone this year by higher US rates – largely those currencies running big external imbalances like Turkey, Argentina and South Africa.

A Democrat blue wave of a win in both chambers might be tougher for the risk environment, where the market would turn to the politics of impeachment. And of course polls have been wrong before, thus should the Republicans surprisingly hold Congress, the dollar, equities and Treasury yields would get a lift on the promise of Trump 2.0. There is everything to play for here. Current market positioning of long dollar/short risk could see a little adjustment today, suggesting DXY could drift to 96.00 even 95.80, but we'll have a greater insight on the next big trend this time tomorrow.

➔ EUR: Getting a lift from Brexit optimism?

EUR/USD is consolidating in tight ranges and should continue to do so into the mid-terms.

As expected, Eurozone finance ministers yesterday echoed comments of the Commission and asked Italy to resubmit its budget by 13 November – although the BTP-Bund spread looks to be sitting comfortably under 300bp at the moment. We're not big fans of the EUR at the moment, but acknowledge the consensus outcome above could see EUR/USD [briefly testing 1.15 again](#).

Also helping the EUR and European currencies, in general, is some re-emerging optimism on Brexit, where this week is again being touted as make-or-break. Whether UK politicians are again over-playing their hand again on the chances of a deal, remains to be seen, but the removal of a hard-Brexit risk premium will be useful for European currencies in general.

➔ GBP: Focus on today's UK cabinet meeting

Today the focus will be on whether PM May can win over her Cabinet on Brexit. Expect the outcome to be leaked to the press later in the day. GBP is starting to trade on a firmer footing, and we favour EUR/GBP breaking below 0.8720.

⬆ AUD: RBA keeps rate unchanged, but cautiously optimistic

The latest policy meeting sees the Reserve bank of Australia remaining cautiously upbeat, but providing no clues about the next rate move. Having broken out of this year's bear trend, AUD/USD could make a run at 0.7260 and 0.7315 in the short term.

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.