FX: Recovering risk, unsynchronised USD moves

With equity markets recovering, we're looking for dollar softness this Thursday

USD: Higher against EUR and JPY, lower against EM FX

Our economists look for healthy October US Industrial Production reading, pointing to a near 3% GDP growth in 4Q17. This should partly help USD vs EUR and JPY which both benefited from a challenging risk environment over the past two days. Yet, with the December Fed rate hike priced with 90% probability, we don't expect a material impact on the dollar, but rather a semi-correction or stabilisation move following recent USD weakness vs EUR and JPY.

EUR: The euro halting its recent upside

As the risk environment stabilised overnight (Nikkei is up 1.5%), we expect the recent EUR/USD uptrend to halt today with the cross retreating to the 1.1750 level. The expected solid US IP reading and the unchanged final estimate of the eurozone October CPI should also cap EUR/USD upside. In the CEE FX space, look for the global risk appetite driven by EUR/CZK upside of the past two days to reverse and the cross to converge towards the 25.5500 level again.

GBP: No new news from the BoE speakers

Our economists see modest upside risks to October UK retail sales (versus our and the consensus call for a flat MoM% reading). Yet with the underlying UK growth and consumption trends weak, the modest upside surprise is unlikely to change GBP prospects. Equally, we don't expect the Bank of England speakers today to surprise with their rhetoric on the timing of the next rate hike (as per yesterday's Ben Broadbent comments on "unclear" balance of risks) and that suggests a fairly muted impact on GBP. EUR/GBP to stay above the 0.8900 level.

SEK and NOK: Stability after the pronounced two-day sell off

The Swedish and Norwegian krone are going through significant weakness, with both currencies down against EUR by around 2% over the past two days. This is due to a mix of a stronger EUR, disappointing domestic data and sharply rising market concerns about the local housing markets. The latter in particular (and its implications for the central banks' stances) suggests lower NOK and SEK for longer vs our current (under-revision) forecasts.

As per Battered Scandies, both NOK and SEK should struggle to fully recover after the sell-off in upcoming months. Into the year end, we prefer NOK to SEK given the likely less dovish December Norges Bank meeting (versus more dovish Riksbank meeting). As for today, we will look through Riksbank's Ohlsson comments (likely to be hawkish based on the recent Minutes) as he does not represent the majority thinking of the board. Yet, with the global risk environment stabilizing, EUR/SEK should test the 9.9000 support.