

## FX: Taking stock

Markets remain quiet ahead of three central bank meetings tomorrow. There's not much on the agenda today but a European Parliament vote on Hungary could prove interesting



### USD: Dollar sidelined for the time being

Markets have been relatively quiet this week as investors take stock of current positioning and the challenges ahead. Undoubtedly investors have backed fiscally-powered US out-performance and are sitting long dollars and long US equities. There's a case to be made (as [DoubleLine's Jeff Gundlach does](#)) that position-adjustment could see the dollar lower into year-end, although there are quite a few challenges ahead. Beyond the issue of Washington escalating trade tensions with China, strong US activity data/hawkish Fed and higher energy prices imposing much hardship on importers, we still have quite a few large emerging market issues to deal with. Tomorrow, [market expectations of a 4-5% increase](#) in effective funding costs in Turkey look difficult to meet. And the Brazilian presidential election, now less than a month away, is certainly starting to take its toll on the Brazilian real. Unless President Trump backs down on protectionism or the Fed starts discussing the end of the tightening cycle (both look unlikely at this stage), we'd expect the US dollar to remain supported on dips. DXY may well hold 94.80 support.

### EUR: Steady ahead of tomorrow's ECB meeting

EUR/USD is becalmed well within a 1.1525-1.1660 trading range and a quiet session ahead

suggests the range will hold. The only data of note is July European industrial production, expected to dip to 1% year-on-year. Instead, the market will be preparing for tomorrow's ECB meeting although in reality we see few catalysts there. On the crosses, Sweden is still waiting for the final count of Sunday's election and it looks like the centre-left will struggle to form a government in what is effectively a dead heat. We favour EUR/SEK higher over coming weeks.

## GBP: Leadership challenge undermines Brexit optimism

We think the pound would be a little higher on optimism of a Brexit deal (EU-UK summit potentially scheduled for mid-November) were it not for a possible leadership challenge to Theresa May before the end of the month. EUR/GBP steady 0.8900-0.8950.

## HUF: European Parliament votes on Sargentini report at 13:00CET today

The European Parliament today votes on whether to accept a report that alleges Hungary's government is undermining EU values. The vote is decided by a two-thirds majority and looks likely to pass. The vote is part of a long process which could ultimately see Hungary losing its voting rights under an Article 7 motion – although Poland would likely veto it should it ever get that far. Approval of this vote looks unlikely to have much immediate impact on the Hungarian forint. However, our team note in [our latest FX talking](#) that HUF is the most vulnerable currency in the central and eastern European mix and should the external environment deteriorate further – which we think likely – HUF will come under pressure. We target 330 on EUR/HUF over the coming month.

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