

## How a week of intense central bank activity can impact G10 currencies

We expect the Fed to delay the tapering announcement and possibly hold the dollar back, and the same could happen with the Riksbank and SEK. The BoE, BoJ and SNB meetings appear to have a lower surprise potential, while the Norges Bank 25bp hike and hawkish rate projections may help NOK. Still, swings in risk environment may offset any post-meeting move



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This week, six of the G10 central banks announce monetary policy. In this article we provide a short preview of the meetings and the implications for the affected G10 currencies. We summarise our views in the table below, where we also provide the expected ranges for the relative currency pairs and the end-of-the-week break-even on FX straddles, which is a gauge of how wide the options market is expecting to move those pairs.

It must be noted that, considering the very risk-off tone that is dominating markets at the start of this week, there is a considerable risk that the post-meeting impact on FX may be more than offset by more swings in global sentiment: the expected FX ranges reported here embed such possibility.

What to expect in FX from a week of central bank activity

|                             | Current stance  | What we expect at the September meeting   | Hawkish/dovish surprise (relative to expectations) | Next week's range (FX) | Friday's FX straddle break-even (ATM%) |         |
|-----------------------------|---|---|--|------------------------|--|---------|
| Fed<br>22 Sept              | No rate hikes before 2023; monitoring data to adjust policy. FOMC leaning increasingly to 2021 tapering, but Powell sounded cautious in Jackson Hole. | Rates unchanged, no tapering announcement, but signals QE may be adjusted in next meetings. Median Dot Plot shows first hike still in 2023.           |  | 1.1620/1.1800          | 0.63                                   | EUR/USD |
| Bank of England<br>23 Sept  | Unanimous vote to keep rates at 0.1%, asset purchase target left at £895 bn. Inflation seen peaking at 4% in 4Q21.                                    | Unanimous vote to keep rate unch., 8-1 vote to keep QE unch. Signalling intention to tighten modestly over the policy horizon, but still too early.   |  | 0.8540/0.8630          | 0.57                                   | EUR/GBP |
| Bank of Japan<br>22 Sept    | Keeping rates at -0.1%, QE and YCC in place for the foreseeable future. Ready to add stimulus if needed.  | Unlikely to see anything different on forward guidance, QE and YCC. May downgrade forecasts on virus restrictions, no impact from LDP vote.           |  | 109.00/110.10          | 0.58                                   | USD/JPY |
| Norges Bank<br>23 Sept      | Announced first rate hike likely to come in September. June's rate projections embedded 100bp of tightening by 4Q22.                                  | Hike by 25bp, rate projections show one more in Dec. Risks skewed to 3 more hike in 2023 projections.   |  | 10.10/10.28            | 0.90                                   | EUR/NOK |
| Riksbank<br>21 Sept         | RB's projections showed the Repo rate unchanged at 0.00% into 2024, due to the subdued inflation outlook.   | 2021 inflation forecast upgraded, but longer-term forecasts not much higher. Hints it may shrink bond holdings in 2023, but still no hikes projected. |  | 10.18/10.27            | 0.50                                   | EUR/SEK |
| Swiss Natl. Bank<br>23 Sept | Keeping policy mix unchanged: negative rates (-0.75%), FX interventions if needed.  | No changes, simple reiteration of the latest policy message. CHF still deemed as highly valued.   |  | 1.0838/1.0936          | 0.48                                   | EUR/CHF |

Source: ING, Refinitiv

## Fed: Too early to move, but set to turn a notch more hawkish

Markets had previously seen the FOMC September meeting as the chance for Chair Jerome Powell to formally announce tapering. After weak jobs data and a slight decrease in inflation in August, we expect (and so do most market participants) to see no changes in the Fed's policy stance this week. Still, we think there will be a certain degree of acknowledgement that the current level of monetary accommodation may no longer be warranted and that asset purchases may start to be unwound by year-end.

Such a tone on tapering may not generate much surprise in the market as it would by and large echo the recent Fed speak. Markets may be more sensitive to any signals about the timing of monetary tightening as the Dot Plot projections are released along with other economic forecasts. It is quite a close call, but we do not expect the Median Dot Plot for the first rate hike to shift from 2023 to 2022.

That would ultimately underpin Powell's recent rhetoric around the de-linking of tapering and tightening, and keep rate expectations capped. In FX, this should translate into a weaker dollar after the FOMC announcement, with pro-cyclical currencies reaping most benefits as postponed Fed tightening could mitigate concerns about economic slowdown in the medium/long term and potentially favour some steepening in the US yield curve.

[Here is our full FOMC meeting review](#)

## Bank of England: Still dodging the hawkish tone

We expect the Bank of England to keep its policy unchanged at this week's meeting. Since the latest rate announcement, inflation broke the 3.0% threshold (in line with BoE expectations), unemployment came in lower than expected, but July growth was weaker than forecasted, which fuelled concerns that the BoE's 3% growth forecast for 3Q may be overly optimistic.

Probably, the majority of voters now feel the conditions for tightening have been met, but the BoE already does have an established tapering plan in place, and we think the MPC will likely want to wait and see the impact of the end of the furlough scheme on the labour market before taking any hawkish steps.

We do not expect to see more than one member (Michael Saunders) voting to reduce the amount

of asset purchases. Our economist is still expecting the first rate hike to be delivered in 2H22, and while there are risks of an earlier move, that relies on some piece falling in the right place, in particular a more broad-based signs of wage growth.

All in all, we expect the Bank of England policy meeting to leave markets quite comfortable with their current policy-rate pricing, which should ultimately see the impact on sterling being quite limited. If anything, markets may have priced a somewhat more hawkish tone for this week and we may see GBP coming under some mild pressure, but we think any move will be short-lived.

## Bank of Japan: Very little surprise potential

The Bank of Japan's meeting should be one of the least likely to impact markets this week, as we do not expect to hear anything new on the policy side. Japan is heading towards a key political event on 29 September when the new leader of the Liberal Democratic Party will be elected to lead the party to the General elections set to be held in November. Our economist, however, sees a low probability that political developments in Japan will be able to stir the BoJ's longstanding ultra-dovish stance, with the inflation target likely to remain at 2%.

Any potential impact on JPY this week may come from the Bank's assessment of the economic outlook, where the impact of the Covid-19 outbreak during and after the Tokyo Olympics may warrant a less optimistic tone. However, given the prospect of a loosening in virus restriction in Japan (low containment measures and strict border controls have been the prevailing strategy in Japan throughout the pandemic), the longer-term view should remain relatively upbeat. All in all, we expect a very muted, and likely neutral impact on JPY.

## Norges Bank: Delivering a well-telegraphed hike

We expect the Norges Bank to hike rates by 25 basis points this week, which is consistent with what it signalled at the latest policy meeting. The hike should be fully in the price, although some risk on no-hike may have emerged in the options market, which is pricing a higher than usual NOK volatility.

A lot of focus will be on the new rate-path projections. We expect them to show another 25bp hike in December, although the formal announcement of a December hike should only come at the November meeting (similar to what happened in August). The latest rate projections were displaying a total of 100bp of tightening by the end of 2022: we think there is a non-negligible risk that one projected hike could be brought forward from 2023 to 2022.

We think the risks for NOK are tilted to the upside when it comes to the impact of the Norges Bank announcement, as a broadly hawkish statement and set of forecasts should endorse the view that NOK will be able to benefit from one of the most attractive rate profile in 2022. Obviously, should market's risk environment remain unsupportive for the rest of the week, the high-beta NOK may struggle to hold onto any post-NB gains.

## Riksbank: Inflation spike not enough to trigger a shift in tone

August's inflation figures in Sweden surprised to the upside, with the headline rate touching 2.1% and CPIX rising to 1.4% YoY. Indeed, the Riksbank's dovish stance has so far been warranted by the rather subdued inflation profile, so some investors started to price in a more hawkish tone following August's CPI data. However, we think it is too early for the Riksbank to make a decisive

hawkish shift just yet, in particular considering that the Prospera survey (which includes money market participants, purchase managers and labour market parties) showed that expectations on CPI inflation have remained anchored at 1.9%, the same level as three months ago.

The 2021 inflation forecasts should however be revised higher, but the longer term forecasts may be only marginally upgraded, ultimately not enough to allow markets to speculate on an imminent hawkish turn. There is a risk the Riksbank could start adding rate hikes in 2024 in its rate projections, but we are still inclined to think they will wait for indications of more persistent inflation pressures to do so.

The only slightly more hawkish could emerge as the Riksbank starts to discuss unwinding bond holding. A bit like the BoE, the Riksbank will stop actively expanding its balance sheet at the end of this year. While policymakers have signalled they will not look to shrink its bond holdings during 2022, we could see the first hint that this may happen in 2023. Like the BoE, this is likely to involve ending - or phasing out - the reinvestment of proceeds from maturing bonds. However, we suspect it is too early for the Riksbank to offer a detailed strategy.

We think market expectations, which have recently moved a bit more towards the hawkish side of the spectrum, will not be met by a Riksbank's message which should remain by and large on the dovish side, especially as the bank provides no signals the inflation outlook has clearly improved. Accordingly, we think SEK may come under some pressure after the rate announcement.

## Swiss National Bank: Another quiet meeting

The SNB looks set to leave all its policy measures untouched at this meeting. The inflation outlook remains quite subdued after the only moderate rise in August inflation (to 0.9%), and growth numbers in 2Q (1.8% QoQ) were slightly weaker than expected.

We simply expect the SNB statement to reiterate the Bank will continue using a policy mix made of negative interest rates and FX interventions if needed. Any FX-related comment should continue to show the bank's concerns around an overvalued CHF, which ultimately justify such policy mix. We expect a very contained and neutral impact on CHF.

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