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Article

Hungary: Normalisation roadmap?

We expect no change in interest rates from the National Bank of Hungary today but we may see the first concrete indication of steps towards eventual policy normalisation. Meanwhile, markets have taken the latest US tariff news in stride

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USD: Positioning looks the biggest threat to the dollar right now

Financial markets have surprisingly taken the latest US tariff news in their stride, even though a 10% tariff rate goes into effect on another \$200 billion worth of Chinese imports next Monday. That tariff rate will rise to 25% on 1 January 2019 unless China offers more concessions on trade. The reaction may in part relate to Chinese Commerce Ministry comments on Monday that 'co-operation is the only right choice for China, US'. This complacency in risk assets could easily be unwound were China to retaliate with their own tariffs on another \$50-60 billion worth of US imports – which could easily happen quite quickly. Long dollar positioning is probably the biggest threat to the dollar right now and we will closely be watching S&P futures to see whether US equities also take this news in their stride. The US data calendar is very light today and we do not see a major catalyst for DXY to break under 94.10/30 support. Today's tariff news should keep activity currencies on the back foot, even though USD/CNY is hemmed in near 6.85 on China's central bank use of the counter-cyclical factor.

HUF: Fade, don't follow any potential forint strength

We expect no change in interest rates from the National Bank of Hungary (NBH) today but we may see the first concrete indication of steps towards eventual policy normalisation (i.e. a roadmap) particularly in light of the ECB nearing an end to its QE programme. Were the NBH to unveil such a roadmap, we expect it would provide an indication of ending/materially reducing its QE and MIRS programmes, but deliver only a limited pre-commitment on the path of interest rates. The latter is likely to remain conditional on the ECB trajectory. While hints at policy normalisation and the associated headline news may lead to a stronger HUF as a knee-jerk reaction, we remain in the 'fade the forint rally' camp given the lack of pre-commitment on the interest rate front, the still very loose NBH monetary stance and the unpredictability of Bubor.

EUR: Italy budget likely to keep gains in check

EUR/USD has been showing some signs of resilience through the early part of the week, but faces strong resistance in the 1.1730-1.1800 area, which we view as the top of the near term range. There is much scope for both 5-Star and La Lega to vent their frustration with the technocrat Finance Minister Giovanni Tria in advance of the submission of the Italian budget on 27 September

– easily un-nerving the BTP market and the EUR. EUR/USD has also been trading as a pro-cyclical currency and trade wars will clearly suppress global activity.

JPY: Demand for downside protection in USD/JPY may emerge

USD/JPY is surprisingly well bid despite trade tensions. There are plenty of event risks over coming months, not least US mid-terms. 112.50 may cap gains here.

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