

## Hungary's central bank in wait-and-see mode

After an abrupt sell-off in Hungary's government bonds, all eyes are on the central bank meeting today. Plus, there are signs of stability in emerging markets FX and is the spike in Italian spreads overdone?



A potential dovish shift hasn't been entirely ruled out for the NBH moving forward, but much will depend on both upcoming data and the ways in which the risk environment evolves

### USD: Tentative stabilisation in emerging markets FX

Markets have shown some tentative signs of stabilisation overnight, with emerging market currencies broadly up against the US dollar. This may be partly a delayed response to easing trade tensions as well as some tentative stabilisation in US yields. Still, the vulnerable EM currencies with material idiosyncratic issues continue to underperform and show only a shallow pace of recovery. The Turkish lira (TRY) is a case in point, with USD/TRY remaining near the 4.6000 level in the absence of a credible central bank response.

### EUR: EUR/USD to stay above the 1.1717 support level today

The euro continues to be primarily driven by Italian politics and spiking BTP-Bund spreads. Our developed markets rates strategist sees the current level of the spread as somewhat exaggerated (due in part to holidays), meaning that the euro may stabilise for now in the absence of further negative news from Italy. Today, President Sergio Mattarella is meeting the speakers of both lower

and upper houses. EUR/USD to stay above the 1.1717 support level.

## **HUF: The NBH unlikely to offer an actual response to rising Bubor for now**

Following the abrupt sell-off in Hungarian forint rates and government bonds (in response to the rise in Bubor), all eyes are on the Hungarian National Bank meeting today. We only look for verbal intervention and expect no actual NBH response as the central bank is likely to remain in wait-and-see mode. As a result, we expect local markets to remain shaky if the NBH continues to show tolerance for a further increase in Bubor (which may tick higher again today) and a lack of an actual response for the time being. We also focus on the FX swap auction today (primarily its size) as this is the ultimate tool to contain the rising Bubor (albeit this is due to technical issues which are temporary in our view). As for EUR/HUF, a lack of NBH response today may push the pair towards the 319.00 level again.

## **BRL: Limited impact from the COPOM Minutes**

Minutes from the last meeting of Brazil's central bank should have no impact on the real (BRL) as the message is clear: the cycle has been concluded and rate policy is unlikely to be used to influence FX dynamics. As our Latam chief economist Gustavo Rangel notes, the central bank boosted FX intervention late last week but reiterated that the bank remains fully committed to a free float regime and that intervention is used just to smooth FX market operations and provide liquidity when needed to avoid sharp moves. The USD remains the primary FX driver for now but if the dollar stabilises, there's good scope for short-term appreciation, thanks in part to support from intervention. Overall though, we remain relatively pessimistic about BRL prospects ahead of the October elections. Intense demand for hedges could push the currency to test previous highs near USD/BRL 4.00.