

Italy's budget plans to weigh on euro

Italy's deficit raising budget plan will remain an overhang for the euro while Brexit uncertainty is set to overshadow a solid UK jobs report



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➔ USD: Treading water

We don't look for material direction in FX markets today given the lack of meaningful data points and the market's focus on the anticipated US Treasury FX report (and the question marks on whether China is labelled a currency manipulator). The price action during the Asian trading session overnight (stable emerging market Asia FX vs US dollar, stable USD/CNY) is in line with such a view.

⬇ EUR: The euro focused on Italian budget rather than ZEW

The ZEW survey is the main eurozone reading of the day. Markets are looking for a modest deceleration, but the impact on EUR/USD should be fairly limited, with the main eurozone-specific driver currently being the Italian submission of its three-year budget plan (the proposal confirmed a 2.4% deficit for 2019) and the response from Brussels. We expect this to act as an overhang for the euro and limit any more meaningful EUR/USD upside. In Poland, our economists look for a moderation in September core CPI (from 0.9% year-on-year to 0.8%). This should have a limited impact on the Polish zloty (the recent re-pricing of the central bank outlook didn't affect the

currency much) but the reading may tame the upside to front end PLN rates (at least for today) following yesterday's upward revision to the flash September Poland CPI inflation.

➔ **GBP: Fairly limited impact on sterling from solid labour market data**

Our economists expect another decent wage growth figure today, confirming that skill shortages across the economy are pushing employers to raise pay to attract/retain talent. In fact, there's a possibility that headline (ex. bonuses) wage growth nudges up to the symbolic 3% level. While encouraging data, we expect a limited impact on the pound with sentiment over Brexit the key driver of sterling. The increased likelihood of a deal not being reached during the upcoming EU Summit (starting tomorrow) limits the positive spillover from solid UK data into GBP. EUR/GBP unlikely to break below 0.8750 today.

➔ **HUF: Non-event NBH meeting to stabilise local bonds and currency**

Today's National Bank of Hungary meeting should be a non-event given (1) the NBH made a lot of adjustments just three weeks ago; (2) one of these was that the NBH would do major adjustments only quarterly when it releases its new Inflation Report; and (3) the September inflation readings didn't provide any major surprise as core inflation was at 2.4% YoY. If such communication helps to stabilise the bond and Hungarian forint rates markets (as no indication of an imminent change in the forward guidance on interest rates should make the local bonds and rates attractive given the previous sell-off and very aggressive pricing – market pencilling 3-m Bubor at 1.70% by end 2019 vs our forecast of 0.90%) the forint should stabilise too.