Risks to global growth and trade

The IMF has modestly downgraded its global GDP forecast for next year and warned about the risk posed by trade wars. This is partly why we remain cautious on emerging markets despite more attractive valuations

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USD: IMF concerns about a less balanced outlook

Ahead of the start of its annual meeting in Bali, the IMF modestly downgraded its global GDP forecast for next year to 3.7% (vs 3.9% previously) and warned about a less balanced outlook (given the rise in trade wars and vulnerabilities in various emerging market countries). The fund estimates that global GDP may fall by 0.8% by 2020 if trade conflict continues. On a similar note, our economists expect trade growth to halve from 2.6% this year to 1.3% next year, which would be the lowest level since the trade collapse of 2009 (see World trade: from boom to bust). Coupled with the shaky general risk appetite, this poses headwinds to EM FX for the time being. As per October Economic Update, we remain cautious on EM FX despite the seemingly more attractive valuations. In our view, the case to turn bullish on emerging markets FX isn't strong enough, due in part to the domestically focused Federal Reserve steaming ahead and continuing to increase interest rates.

EUR: Staying flat

EUR/USD should remain close to the 1.1500 level today given the cautious stabilisation in EM FX overnight (USD/CNY is modestly lower after the spike yesterday) while the 10y BTP-bund spread already trades close to what our rate strategists see as a tentative local maximum (level around 300 basis points).

NOK: Softer monthly GDP reading unlikely to affect krone

In Norway, the newly released monthly GDP indicator surprised on the downside this morning (-0.2% MoM vs +0.2% consensus). But given this is the first reading of a new data series (and thus harder to forecast) and the more erratic nature of summer data points, its effect on the krone (NOK) should be fairly limited. NOK should continue to be supported by elevated oil prices.

CZK & HUF: High inflation readings having different effects

Our economists look for both Czech and Hungarian inflation to accelerate today to 2.6% year-on-year and 3.6% respectively (see EMEA Calendar), bringing both inflation readings further above the central banks' targets (2% and 3% respectively). We expect the rise in Czech CPI to be largely neutral for the Czech koruna as plenty is already priced in for the central bank policy outlook (in excess of one hike for this year). In the case of the Hungarian forint (HUF), another rise in CPI towards the upper tolerance band of 4% is likely to bring back concerns about the central bank's (NBH) inflation targeting credibility. Given the NBH's loose policy stance (the loosest in the central and eastern European region) and its unwillingness to proactively tighten monetary policy, we see today's CPI reading as HUF negative and view HUF as the most vulnerable CEE currency in the current unfriendly environment for emerging markets. EUR/CZK to hover close to the 25.80 level while EUR/HUF is at risk of breaching 326.00.