That's Amore Italian budget pain

Reports suggest that the Italian government's initial budget proposal today may well be delayed and that both ruling parties are pushing to increase the budget deficit

Source: Shutterstock

USD: Focus back on trade and geopolitics after a remarkable Trump presser

As ING's James Knightley notes on the September FOMC meeting: "The Fed voted unanimously for another 25 basis point rate rise and while policy is no longer described as 'accommodative', the gradual increases in the Fed funds rate look set to continue for at least another couple of quarters". With the Fed failing to show any additional hawkish aggression to sustainably lift the dollar higher, the focus for investors now turns to US politics – not least after what can only be described as a truly extraordinary press conference by President Trump following the UN summit yesterday. For global markets, there were two particular issues beyond the president's aversion to the FOMC raising interest rates: (1) accusations of China meddling in the US midterm elections – which briefly saw USD/CNH trading higher; and (2) the president's negative tone over Nafta and US-Canada trade talks – which has seen the Canadian dollar fall by around 0.60% overnight. The prospects of a 'Zombie Nafta' may keep CAD under some pressure for now – while a formal break-up risks seeing USD/CAD at 1.35-1.36.

EUR: Reports of an Italian budget delay heaps political pressure on the euro

While all eyes were thought to be on the Italian government's initial budget proposal today, reports this morning note that this may well be delayed and that both the ruling parties (5-Star and League) are now pushing for a 2.4% budget deficit (versus the 2.0% line in the sand). As our rates team notes, when it comes to the budget, the verdict of the rating agencies may be the key driver of BTP spreads over the coming months. Moody's, which has placed Italy's Baa2 rating on credit watch negative, will provide clarity by the end of October – while S&P, which has Italy at BBB/Stable, has a review scheduled for 26 October. Nonetheless, any delay in the initial Economic and Financial Document release today would highlight the fractions within the Italian government over agreeing on a fiscal 'philosophy' – while it may even risk Italy missing the 15 October deadline for submitting a draft budget to the European Commission. There's also noise that Finance Minister Giovanni Tria could resign over this. It's no surprise that EUR crosses have headed south on this news; should we see any budget delay, expect EUR/USD, EUR/JPY and EUR/CHF to all move sharply lower. EUR/USD could move to 1.16.

NZD: RBNZ sticks to neutral script; markets see a 1Q19 rate cut as more likely

The Reserve Bank of New Zealand kept policy unchanged as expected and reiterated the guidance that rates could go 'up or down'. The kiwi has been fairly unmoved on the meeting – though the emphasis on trade tensions and downside risks to domestic growth has kept the mildly negative skew in the NZD OIS curve in place (with markets marginally seeing a cut as more likely than a hike in the next three-six months). This will likely mean that the short-term bearish NZ dollar bias remains in place for now.

TWD: Taiwan central bank set to stay on hold while we cut our GDP forecast

As ING's Iris Pang argues, we expect the central bank to stay put for 2018 – and perhaps even for 2019 – as it is difficult to cut interest rates to help a gradually slowing economy. The central bank has to save rate cuts as a last resort. In the meantime, the trade war between China and the US has forced us to revise our GDP forecast downward. We realise that USD/TWD is less volatile than other Asian currencies but could see a move to 31.0 by the end of the year (32.0 in 2019).