The November rebound for risk assets

News of China stimulus has given emerging markets a boost. But how long will the rally last?

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USD: Temporary weakness

After a very difficult month of October for risk assets, overnight we saw across-the-board strength in emerging markets and higher beta FX, partly helped by the announcement of Chinese stimulus (which in turn has helped the Australian and New Zealand dollars to outperform). Although the National Council has not announced the amount of its latest stimulus package, our economists estimate it is worth CNY9-10 trillion (see China: Stimulus with a weaker yuan for more on this). Yet, with the combination of trade wars, a tightening Federal Reserve and the US economy outperforming its G10 peers, we don't expect these emerging market FX rallies to be longlasting. As for today's US October ISM Manufacturing report, our economists look for a below-consensus number, due in part to the combination of a strong US dollar and rising interest rates. Still, the sentiment indicator remains high, consistent with strong US growth, suggesting limited downside to the dollar.

EUR: Narrowly surviving breaking below 1.1300

EUR/USD narrowly remained above the 1.1300 yesterday and is currently benefiting from the rebound in risk apatite and weaker US dollar. As per The euro may need to cheapen a little more, the EUR story does not look especially encouraging right now and we are more worried about a potential break under 1.10 than we are by a move over 1.18.

GBP: Brexit uncertainty preventing the BoE from hiking

The focus is on the Bank of England meeting today. We're likely to see a unanimous vote to keep policy unchanged and we don't expect a rate hike before May 2019 at the earliest. Having stayed relatively quiet on Brexit risks at recent meetings, probably the most interesting question for markets will be whether Governor Mark Carney voices greater concern about the short-term outlook. Yet, given the combination of recovering risk appetite and yesterday's comments from Brexit Minister Dominic Raab about a deal being finalised later this month, the downside to GBP should be fairly limited today.

CZK: Koruna unlikely to benefit from expected hike

The combination of above-target CPI and a relatively weak koruna (which hasn't delivered the monetary tightening the central bank expected) should bring another 25 basis point rate hike today. Yet, signs of slowing economic activity may lead to a modest downward revision to the degree of overall tightening needed by end-2019. We expect CZK to continue weakening into the year-end as today's decision is fully priced in. The koruna also remains overbought and is likely to suffer from the year-end decline in implied yields associated with the resolution fund. We expect EUR/CZK to test 26.00 this year.