

Three central bank meetings, three political stories

The European Central Bank, Bank of England and Central Bank of Turkey are set to meet today. Here's how we expect things to shape up



European Central Bank HQ, Frankfurt

Source: Shutterstock

USD: Economic Earth, Central Bank Wind and Political Fire..September is here

Will you remember the 13th night of September? Indeed, Earth, Wind and Fire famously told us all to continue dancing in September and there'll definitely be plenty of opportunities for FX markets to do that today – with three major central bank meetings on the agenda (see below). Turkey may be the most important for global markets – with investors wanting to see policymakers across the emerging market space taking credible steps to address local issues and restore some calm after a turbulent summer. A softer US CPI release would also help the EM FX recovery.

EUR: Hard to see an ECB GDP growth downgrade as news for euro

Reports ahead of today's September ECB meeting are that the central bank's staff will probably downgrade its 2018 eurozone GDP forecast – albeit due to weaker external demand. This shouldn't be all that surprising to investors and we doubt the euro needs to move sharply lower on any negative eurozone GDP growth revision today as: (i) the reason for the ECB staff's downgrade is likely to be a slowdown in global trade amid trade war uncertainty (rather than a eurozone-specific factor); (2) analyst consensus expectations for 2018 eurozone GDP have already shifted down by 0.3 percentage points since April (now at 2.1% in line with the ECB's June staff projection); (3) reports note that staff eurozone inflation projections – which are arguably more crucial for the timing of the ECB's first rate hike – will remain unchanged; and (4) markets are only pricing in 8 basis points worth of ECB rate hikes by September 2019 (and 15 basis points by December 2019) – which is considerably more dovish than our view of 40 basis points of ECB tightening by end-2019. With investors heading into today's meeting not expecting much, we see little reason for EUR/USD to fall back below 1.1580-1.1600 on a dovish ECB.

GBP: Position for a rebound as come what May... a Brexit deal will be signed

While we're not expecting any fresh policy signals from the MPC today, we note the recent flurry of strong UK GDP growth and wage data – coupled with benign market expectations over future Bank of England policy tightening – suggests the risks to short-term UK rates and GBP from today's meeting mainly lie to the upside. We don't expect the September policy statement to make any judgement calls on Brexit as the Bank will undoubtedly want to avoid becoming politicised at a vital juncture in UK politics; instead, expect a reiteration of the MPC's smooth (orderly) Brexit assumption that underpins their overall economic outlook – and if anything we get some reference to this being under close monitoring. As for Brexit itself, GBP markets seem to be getting tired of the positive headlines following the initial repricing of no-deal risks and we suspect investors will now want to see some tangible progress on the Withdrawal Agreement to fully engage in a broad GBP recovery. We [agree with reports](#) that any UK concessions on the Irish border are unlikely to come until after the Tory Party Conference (ending 3 October) – but still recommend positioning for a sharp GBP/USD rebound to 1.36-1.38 over the next two months with Prime Minister Theresa May likely to be signing a Brexit deal in mid-November.

TRY: 2-3% hike to stabilise lira conditional on hawkish CBT

At 1300CET, we see the highly anticipated announcement of the CBT monetary policy decision. There are many permutations today – but the market broadly looks to be expecting a big hike in the policy rate (currently the one-week repo rate) to the 21-22% area. This would mark a 175-275 basis point increase in the effective cost of funding and, if accompanied by: (a) expectations of another hike in October and (b) expectations of strong fiscal consolidation in a Medium Term Economic plan, could be enough to stabilise USD/TRY in the 6.00/6.25 area. Our [full preview is here](#).

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