

Too early to price in Taylor-like Fed

Don't read too much into Fed Chair speculation



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USD: Too early to price in Taylor-like Fed

While the US dollar recorded another set of gains following the news that the rule-based economist John Taylor impressed President Trump in an interview for the Fed Chair post (note that based on the Taylor rule, US Fed Funds Rate should be 2- 3%) we caution to read too much into it. This is because:

- the selection process is not finished yet, and even when it's done, it still needs to go through the approval process in Congress; and
- it is hard to see President Trump desiring aggressively higher rates going into the mid-term elections in November 2018.

A rebound in US September Industrial Production should be supportive of USD today.

EUR: Another solid German ZEW index to have a limited impact on EUR

The focus turns to the October German ZEW index, which should give us some idea of how investors assess the outcome of the federal elections. In line with consensus, our economists are

looking for a modest increase. However, given the solid state of the German economy is now well known and the looming all-important ECB October meeting ahead, we expect today's outcome, along with other upcoming eurozone data in general, to have a fairly limited impact on the euro.

It is now all about the form of the QE tapering the ECB will opt for. The Final Sep eurozone CPI should confirm the Flash reading and should be a non-event for EUR.

3%

UK September CPI

Expected (YoY)

GBP: Inflation at 3%YoY strengthening the case for a November rate hike

Our economists expect UK Sep CPI to hit 3% year-on-year, largely due to an increase in fuel prices. This should cement market expectations of a November rate hike and provide some modest support to GBP. Focus will also turn to how strong underlying inflation is and whether this prompts the Bank to signal that we're in 'more than a withdrawal of stimulus' hiking cycle. We think only a November rate hike is on the cards and then a long pause.

Governor Mark Carney testifies to lawmakers, along with new members Ramsden and Tenreiro. Hawkish signals could steepen the UK rate curve and move EUR/GBP back below 0.8850, with the cross grinding towards the 0.8800 level.