

FX Daily: Focus turning to post-election stimulus

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Senator Kamala Harris (L) and US Vice President Mike Pence wave as they arrive for the Vice Presidential debate at the University of Utah's Kingsbury Hall in Salt Lake City, Utah, USA

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📌 USD: Focus turning to the post-election stimulus

Last night's vice-presidential debate added to the chances of a Joe Biden victory in the presidential election.

With President Trump abruptly ending the talks on fiscal stimulus, the focus now turns to the probability of the Democratic fiscal stimulus post-elections. With Biden's lead extending and the accompanying reduction in the likelihood of a contested outcome, the post-election dollar outlook looks fragile, particularly if larger post-election fiscal stimulus is delivered by the Democrats and the Federal Reserve keeps the narrative of low real rates for longer firmly in place.

Elsewhere, NZD was the G10 underperformer overnight following RBNZ officials' comments about the possibility of negative rates. While this is not something new (hence only relatively limited

negative reaction of NZD) the willingness to explore negative rate territory (vs lower appetite at some other G10 central banks) is a clear negative for NZD.

➔ EUR: ECB Minutes and the bank's willingness to tolerate a strong EUR

The focus is on the ECB minutes, with investors looking for more details on ECB willingness to tame EUR upside. That said, given the euro correction since then (following the ECB soft verbal interventions) and EUR/USD remaining below 1.20, there is now a less urgent need to actively lean against the EUR strength.

More ECB stimulus seems to be on the cards in December as inflation continues to disappoint.

➔ GBP: Up and down

The up and down GBP price action continues after the UK government reiterated its stance to quit negotiations should insufficient progress towards the deal be made by 15 October.

While odds shifted slightly towards the UK-EU trade deal in recent days, we continue to see GBP reaction to the negotiation outcome as asymmetric and heavily skewed to GBP losses (in terms of no-deal) vs limited gains (in case of a deal) given the degree of complacency and no risk premium currently priced into GBP.

➔ HUF: Peaking CPI but no response from the NBH

The focus is on Hungarian September inflation which is likely to rise further to 4.0% YoY on the back of fuel prices. However, this should be the peak in headline CPI and we should see a strong decline in Q4. Coupled with the stabilising HUF (EUR/HUF is back below the 360 level) following the 15bp hike in the 1-week depo rate, the NBH should remain in wait and see mode and not react to the increase in CPI. This means no additional 15bp hike in the 1-week depo rate today.

Near-term we expect HUF to outperform both PLN and CZK as the NBH is leaning against currency weakness. This is in particular contrast to PLN, where the NBP statement reiterated yesterday the lack of PLN adjustment to global pandemic-driven shock and to the monetary policy easing. We like short PLN/HUF.

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