

Will inflation make Bank of Canada take a pause?

As policymakers become cautious about markets moving too far too fast for their liking, we expect a pause in the tightening cycle barring any big surprises in inflation



Source: iStock

USD: Little reason for USD to rally

Existing September US home sales are expected to decline modestly. But high employment levels and low borrowing costs should keep the market well supported with home sales remaining close to cycle highs. Expect the impact on the USD to be relatively muted, with markets paying more attention to Chair Yellen's speech in the evening after trading closes. With the Dec rate hike priced in sufficiently, we think the upside to USD should be limited.

EUR: Lack of downside to EUR/USD

In line with our view, the Spanish situation with PM Rajoy invoking Article 155 to suspend powers of the Catalan administration had virtually no impact on EUR, and in fact, the EUR/USD rallied.

Today, there are no data releases in the Eurozone. In Norway, third-quarter Industrial Confidence should have a limited impact on NOK and is unlikely to lead to a material shift in market's

perception of the NB rate path. We look through Finance Minister Jensen's comments yesterday (on weaker krone boosting competitiveness) given the already clear NB message that it won't raise rates until "well into 2019". EUR/NOK to edge toward 9.38.

CAD: Inflation to point to a pause in the BoC tightening cycle

Canadian CPI and retail sales data will dominate CAD price action today - especially ahead of the 25 Oct BoC meeting. Policymakers have been gradually shifting to a more cautious stance over further rate hikes amid concerns that markets may have moved too far too fast for their liking.

In the absence of any positive inflation surprise (consensus is looking for common core CPI at 1.5% YoY), we expect a pause in the tightening cycle for the remainder of the year. This suggests a limited downside to USD/CAD today, with the USD/CAD 1.2450 level to hold.

HUF: Upgrade in credit rating outlook likely

Moody's will review the Hungarian sovereign debt rating today for the third (and last) time this year. We expect at least some commentary given Moody's simply skipped the review the last two times.

We think it is likely that Hungary's outlook will be updated to positive, especially after S&P's decision in August. While the market is currently primarily focused on the National Bank of Hungary in terms of gauging the near-term HUF price action, should Moody's decision turn out to be a clear positive (and not just an affirmation), we see a short-lived EUR/HUF depreciation.