

FX Briefs

FX Daily Brief: EUR/USD broke below 1.17 on hawkish Fed

23.9.2021

Overview: EUR/USD broke below 1.17 yesterday after the more hawkish-than-anticipated Fed message. EUR/NOK and EUR/SEK ended the day basically unchanged from just before the Fed announcement. Today's key events in FX space are Norges Bank and the Bank of England meetings.

Majors: Although EUR/USD initially held its level upon release of the FOMC statement (1.1740), this was later pared in favour of a stronger dollar (1.1688 at the time of writing) as Powell went through the press conference. Indeed, falling short of actually announcing tapering, it was our reading of the press conference that Fed is on its way towards 1) tapering by November and 2) with a goal to hit zero purchases by mid 2022 and, 3) amid "very broad FOMC support". In addition, though some US data have been slightly weak, the FOMC seems willing to look through them, as it expects the recovery to continue. We share this assessment. As such, tapering is largely seen as a done deal.

We continue to expect EUR/USD to go even lower over the coming quarters, supported by Fed but also a peak in the global manufacturing cycle and fading some of the extraordinarily easy liquidity conditions. We target 1.15 in 12M and 1.13 in 15M and see risks to the downside for these estimates, as well as see a risk that our forecast may be realized sooner than currently expected in the main scenario. In the very short-term, we may see some follow-through in the coming sessions, favouring a bit more dollar strength.

Scandies: The Fed meeting proved no game changer for our strategic bearish NOK view. The direction of US monetary policy is clear and there are no indications that the Fed is suddenly shifting in a dovish/patient direction. This removes an important tail risk for NOK bears. Also global manufacturing will increasingly become a headwind for NOK this autumn and if we are right in our USD appreciation call above, it has historically rarely been a good environment to be long NOK FX in - even despite Norges Bank rate hikes. We think temporary factors have supported NOK FX over the last weeks and still like the risk reward of selling NOK FX via options. Tomorrow's

Norges Bank meeting could well be a "buy the rumour - sell the fact"-event. For more on our Norges Bank expectations please see [Reading the Markets Norway](#), 16 September.

Emerging Markets: Most EM currencies traded on a weak note ahead of Fed and the uncertain debt situation of Evergrande in China. The PLN was also initially hit, but then recovered some ground during the day. In that process the EUR/PLN broke through 4.63, which triggered the stop-loss on our short EUR/PLN trade recommendation. We have to admit that the central bank has kept a much more dovish tone than we expected (pushing back against rate hikes and maintaining the need for FX interventions and QE), despite the strong rebound in the Polish economy and rising inflation expectations. We think this has made markets uncertain about the central bank's commitment to its inflation targeting framework and ultimately the competitiveness of the Polish economy at the current exchange rate level. We will take stock on our forecast in the coming days.

EUR/USD - we expect the data to support expectations of Fed tapering, for cyclical indicators to calm further and for the USD to strengthen on the back of this over the coming quarters.

EUR/NOK - we recommend to buy 3M bullish seagull as Norges Bank induced strength will prove temporary

EUR/SEK - the cross remains a 'buy on dips' on the medium-term

EUR/GBP - a bit higher if the Bank of England does not turn more hawkish today

USD/JPY - elevated commodity prices will continue to weigh on the JPY and we expect the cross to move higher as US yields begin to rise.

EUR/DKK - the trend of low EUR/DKK and need for FX intervention will continue until DN eventually cuts interest rates.

Oil - range bound as OPEC+ starts normalisation of output.

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