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Fears over hard landing for global economy are intensifying

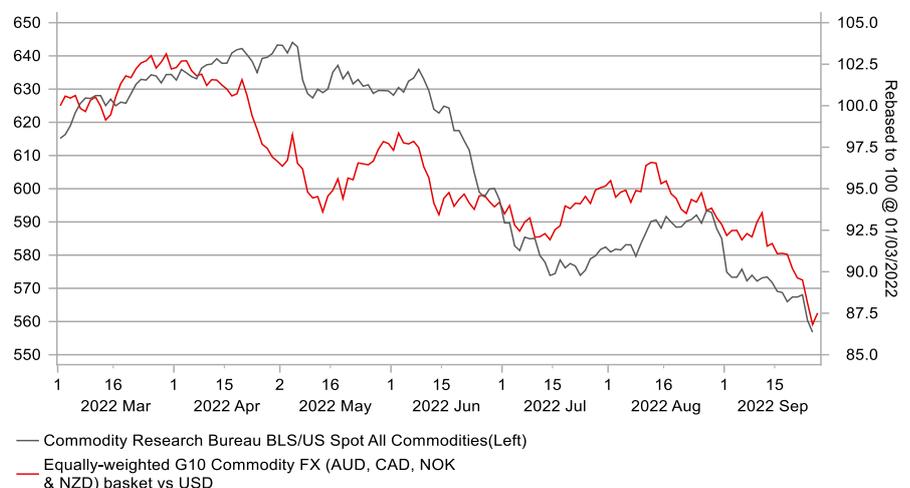
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GBP: Hopes for corrective policy action help to support

The pound has continued to trade at stronger levels during the Asian trading session as it reverses the sharp losses sustained since the end of last week. Cable has rebounded back above the 1.0800-level after hitting a record low of 1.0350 during yesterday's Asian trading session. Similarly, EUR/GBP has fallen back towards the 0.8900-level after hitting a high yesterday of 0.9266. The price action suggests in part that pound weakness may have overshot fundamentals as market participants lost confidence in domestic policy settings in the UK. The pound has since been supported by comments from both the BoE and UK government that they will take appropriate action in attempt to restore investor confidence. The BoE released a statement yesterday in which it acknowledged that it will take into account the inflationary impact of the weaker pound and fiscal stimulus measures when setting monetary policy at their next MPC meeting on 3rd November. They reiterated that "the MPC will not hesitate to change interest rates by as much as needed to return inflation to the 2% target sustainably in the medium-term". The BoE's statement and yesterday's rebound for the pound have dampened market expectations for now that they will have to hold

HARD LANDING FEARS ARE INTENSIFYING



Source: Bloomberg, Macrobond & MUFG GMR

an emergency policy meeting. The UK rate market is still though expecting the BoE to deliver a larger rate hike at the November MPC meeting to dampen upside inflation risks and support the pound. Market participants are currently expecting the BoE to deliver up to around 150bps of hikes by the November MPC meeting. Pressure for an emergency meeting would only build again if the pound resumes its sharp sell-off in the coming weeks.

At the same time, the pound was supported yesterday by the announcement from the UK finance ministry that it is planning to release a medium-term fiscal plan on 23rd November. The fiscal plan will set out further details on the government's fiscal rules including ensuring that debt falls as a share of GDP in the medium-term. Ministers are also planning to announce further measures to boost the supply-side of the UK economy in October and early November. A detailed plan which helps to ease market concerns over fiscal sustainability in the UK would be a welcome development given market participants are currently concerned that the unfunded tax cuts are unlikely to be financed through a pick-up in economic growth alone. While the developments yesterday have helped to provide some support for the pound in the near-term, we continue to believe that it remains vulnerable to a further sell-off especially as global financing conditions continue to tighten and fears over a hard landing for the global economy intensify.

EM FX: Hawkish Fed & global growth fears triggers fresh year to date lows

Emerging market currencies have fallen to fresh year to date lows against the USD over the past week. Weakness has been broad-based with only the RUB strengthening against the USD (+2.8%). In contrast, the worst performing EM currencies have been the CLP (-5.9% vs. USD), HUF (-4.8% vs. USD), BRL (-4.6%), PLN (-3.6%), and CZK (-3.3%). It has resulted in the CZK, HUF and PLN all falling to fresh year to date lows against the USD. The Central and Eastern European currencies have been undermined over the past week by President Putin's plans to step-up military intervention in Ukraine to protect territorial gains in the East and South of the country. The latest developments have dampened recent optimism over a quicker end to the conflict following advances made by Ukraine forces. While the Latam currencies have been hit harder by the worsening sell-off for commodity markets as global growth fears intensify. The CRB's all commodity price index has fallen to fresh year to date lows and extended its decline to almost 14% from the peak in May.

Emerging market currencies have been hit more broadly by the Fed's hawkish policy update last week. Alongside hiking rates by 75bps for the third consecutive FOMC meeting, the Fed also signalled that they plan to keep raising rates at a faster pace through the remainder of this year. It has prompted the US rate market to almost fully price in another 75bps hike from the Fed at the November FOMC meeting which is then expected to be followed by a further 50bps hike in December. Market expectations for the terminal rate have risen further as well up towards a peak of close to 4.75% next year. The sharp ongoing rise in US yields is directly encouraging a stronger USD, and indirectly by heightening fears over a hard landing for the US and global economy that are fuelling safe haven demand as well. MSCI's ACWI global equity index has already fallen to fresh year to date lows extending its decline to 26% from the Jan peak.

The policy meetings from the CNB (Thurs) and NBH (today) will be in focus in the week ahead. The CNB is expected to refrain from raising rates further under Governor Michl, and continue to focus their efforts at dampening upside inflation risks through intervention to support the CZK. In contrast, the NBH is expected to continue fighting upside inflation risks and supporting the HUF through delivering a larger 100bp hike. The different approaches have both failed to prevent further currency weakness against the USD. In contrast, the CBRT has continued to pursue its unorthodox

strategy of lowering rates by a further 100bps over the past week to combat elevated inflation. After the recent period of relative stability against the USD at around the 18.000-level, we expect TRY weakness to re-accelerate. Please see our latest EM EMEA Weekly for more details ([click here](#)).

KEY RELEASES AND EVENTS

Country	BST	Indicator/Event	Period	Consensus	Previous	Mkt Moving
EC	09:00	M3 Money Supply YoY	Aug	5.4%	5.5%	!!
US	13:30	Durable Goods Orders	Aug P	-0.3%	-0.1%	!!
US	14:00	S&P CoreLogic CS 20-City MoM SA	Jul	0.2%	0.4%	!!
US	15:00	Conf. Board Consumer Confidence	Sep	104.5	103.2	!!
US	15:00	New Home Sales	Aug	500k	511k	!!
EC	16:15	ECB's Villeroy speaks in Paris				!!!

Source: Bloomberg

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