

# Inflation on markets' lips ahead of CPI releases

20th October 2021

## GBP

While the pound broadly followed USD moves overnight and this morning, the UK CPI inflation release which printed just below expectations, both MoM and YoY, led to additional weakness in the pound to reach fresh daily lows. The data was the last reading before the Bank of England's November decision on policy rates, and market pricing of rates has remained broadly unchanged since the release as the data did undershoot expectations but still printed above the BoE's target. Consumer prices rose 3.1% in September vs the 3.2% consensus, and prices are set to rise another leg higher next month before moving above 4% by the end of the year as expected by the Bank of England. No relevant UK risk events or speakers are scheduled for today, although markets may turn focus to weekly PMQs in the Commons at 12:00 BST, at which they will watch for clues ahead of next Wednesday's Spending Review.

## EUR

The euro trades just off of October highs against the dollar this morning as market sentiment continues to be supported by fading fears surrounding China's property sector. Inflation data from the eurozone will be eyed today at 10:00 BST. Inflationary pressures in the eurozone are broadly expected to be less significant than in the US and UK, however, markets will still watch price data in the context of recent comments by European Central Bank members around normalising policy and keeping current programmes flexible. Elsewhere in Europe, the National Bank of Hungary hiked interest rates by 15bps to reach a base rate of 1.80% - something that was widely expected by markets. Still, the forint posted losses following the announcement, arguably as risks to the rate hike were tilted to the upside with some forecasters expecting a 30bp hike and inflation expectations remaining significantly high.

## USD

Risk sentiment in G10 FX remained positive after strong corporate earnings reports bolstered benchmark stock indices on Wall Street while reducing demand for safe haven currencies. 10Y Treasury yields extended gains in the early Asian session while the DXY index still trades below the bulk of October's trading range given the dollar's safe haven appeal. Expectations for the Fed to start policy normalisation soon remain high after Fed Governor Christopher Waller confirmed market expectations and stated yesterday the Fed should begin tapering its bond-

buying programme next month. Similar to what Chair Powell has been signalling recently, Waller added that interest rate increases still are "some time off". Markets turn to the Federal Reserve's Beige Book tonight at 19:00 BST.

## CAD

The loonie resumed its rally against the US dollar yesterday as stocks climbed and crude oil prices remained high, while the greenback traded lower across the entire G10. Brent crude continued to trade around 3-year highs yesterday at \$85/b, while WTI remained comfortably above the \$82 handle for most of yesterday's session. Today's focus turns to CPI inflation from Canada at 13:30 BST, which will be viewed in light of next week's policy decision. Expectations for the YoY print are set at 4.3%, slightly higher than August's 4.1% reading, while the MoM figure is expected to remain unchanged compared to last month, non-seasonally adjusted.

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