

## FX: A crucial day for Brexit and sterling

Brexit uncertainty pushes GBP/USD below 1.20



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### ⬇ GBP: Risks tilted to the downside on key day in parliament

In a [recent publication](#), we identified two routes for the UK Parliament to stop a no-deal Brexit: a no confidence vote and a legislative path. Today, Parliament will go down the second route by attempting to gain control of the House of Commons agenda. This would allow it to table legislation to try to force the Prime Minister back to Brussels to ask for another Article 50 extension, although success today will rely heavily on an unprecedented ruling by Speaker John Bercow. If this occurs, the big question is whether the Prime Minister Boris Johnson will offer MPs an election in mid-October. This option may look tempting for Labour MPs, but they may not agree to go to the polls without a clear commitment on an Article 50 extension. If that's the case, an election would be almost impossible to call. The risk of surprises in either direction suggests another bumpy day in the markets and we suspect that the balance of risks for GBP is likely skewed to the downside today. Should the MPs' attempt to control the agenda fail, the legislative route would likely be off the table and the perceived risk of no-deal may rise. On the other hand, the possibility of a no confidence vote and general election leaves many questions open. GBP/USD has fallen below-1.20.



## USD: Weaker ISM needed to stop the dollar run

The dollar has remained bid at the start of this week amid broadly subdued risk sentiment. Today, all eyes will be on the ISM Manufacturing index for the month of August, which is expected to stay flat at 51.2, according to a Bloomberg survey. However, our economists flag the risk of a weaker reading, which may put an end to the extended dollar run and send the DXY back towards 99.00.

## ➔ EUR: An early test for the Italian coalition

The freshly-formed PD-M5S coalition in Italy will face a key test today as members of the 5 Star Movement vote on the political agreement through an online platform. Should the nays prevail, the heads of 5 Star have pledged to pull out of the coalition with PD. Markets have not priced in this possibility at the moment, and recent polls have hinted at a positive result for the vote, although some caution is likely warranted.

## ⬇ CAD: The BoC may start to turn dovish

We recently [changed our call on the Bank of Canada](#) and now expect one rate cut in October. As the Bank announces monetary policy tomorrow (1500 BST), we suspect the statement will lean on the dovish side, stressing the downside risks stemming from trade tensions and the global slowdown and thereby paving the way for a rate cut in subsequent meetings. This would likely help the markets cement their easing expectations and push USD/CAD towards the 1.3400 level.

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