

Assessing the pressure on the pound

The combination of lacklustre UK economic data and political noise is highlighting the pound's short-term vulnerabilities. But major GBP fallout looks unlikely.



GBP: Under pressure but lacking a big selling catalyst

- **GBP/USD:** A mixed bag for UK data last week has put talk of a Bank of England (BoE) rate hike on the back burner. We are not looking for any revisions to 2Q GDP (Thursday), with an unchanged 0.3% QoQ print confirming a weak quarter of activity. UK rates have adjusted to a wait-and-see BoE policy approach now and we would need to see higher US rates for GBP/USD to move lower towards 1.26-1.27.
- **EUR/GBP:** The pound may be rivalling the dollar when it comes to short-term political uncertainty, with a 'sell on (PM) May and go away' type of behaviour emerging ahead of key domestic political and Brexit events in early October. This partly explains the current bullish bias in EUR/GBP, which trades near the key 0.9145/50 resistance area. A breach of this - should the EUR rally on a more hawkish ECB President Draghi this week - would take us into an unknown territory, with the EUR/GBP rally potentially extending beyond the 0.92 level. This is not our base case and we look for the 0.90-0.92 range to hold this week given the lack of any major GBP selling catalysts.

		Week ahead bias	Range next week	1 month target
EUR/GBP	Spot ref: 0.9130	Neutral	0.9000-0.9200	0.90
GBP/USD	Spot ref: 1.2860	Neutral	1.2780-1.2980	1.28

Theme 1: Will President Draghi play it cool this week?

It looks like top central bank officials - including ECB President Mario Draghi and Fed Chair Janet Yellen - will remain tight-lipped over future policy plans at Jackson Hole this week, with a big picture focus on central banking and the global economy removing any significant event risk for markets. While Draghi will undoubtedly sound more upbeat on the prospects for the Eurozone economy relative to his 2014 Jackson Hole speech, we do think the ECB chief will be more careful with his choice of words when speaking in Lindau (Wednesday) and Jackson Hole (Friday) this week. Indeed, the July minutes expressed concerns over a possible front-running of ECB policy normalisation within markets, which to some extent highlights the current market-sensitive nature of central bank talk.

Theme 2: UK government's Brexit position a little less opaque

The UK government outlined its position on future customs arrangements with the EU last week and while a transitional period is sought, the lack of clarity on its length may be seen as a near-term disappointment. We expect GBP to trade with a negative bias ahead of the governing Conservative party conference and key Brexit talks in October. However, we see this as a short-run phenomenon at best; it's difficult to see any material GBP fallout in the absence of any flaring tail risks such as a breakdown in the UK-EU negotiations and renewed cliff-edge Brexit risks. We'll be closely watching how business sentiment is holding up in the August CBI surveys (Tuesday & Thursday).