

Brexit: Cautious on cable

With an Article 50 extension looking more likely by the day, we can see why some research houses are calling for cable at 1.36/38. But we see enough uncertainty to keep GBP/USD trading in a 1.30-33 range



➔ USD: Continue to favour strength in USD/JPY

The dollar is proving a bystander to events overseas at present, but retains a gently bid tone. US durable goods orders today are unlikely to be a game-changer and instead we continue to focus on USD/JPY, where high USD hedging costs and a Bank of Japan meeting on Friday favour a return to the 112.20 area.

➔ EUR: Another poor piece of activity data today

EUR/USD has been helped by the recent rally in sterling and 0.8500 is proving some kind of floor for EUR/GBP. Already released German data signals downside risks to the 1% month-on-month bounce-back expected in eurozone industrial production today. This follows very weak readings in November and December. Very low levels of volatility suggest that EUR/USD is proving sticky and will struggle to break above the 1.1300/1320 area today.

➔ GBP: Deal or No Deal?

After another rejection of Prime Minister Theresa May's withdrawal deal last night, the path ahead for sterling looks no clearer. Is her withdrawal agreement really dead or will it make a comeback when parliament is really desperate? And it may just be positioning, but it seems the EU has little appetite for a 'short extension to prepare for no deal'. For today, the motion to reject a no deal Brexit should be widely approved, leading us to the more interesting vote tomorrow on the request for a formal Article 50 delay - and potentially a series of indicative votes on what parliament really wants. We can see why some research houses are calling for cable at 1.36/38, but we see enough uncertainty to keep GBP/USD trading in a 1.30-33 range. So far, the realised volatility is just about justifying the exceptionally high levels of implied volatility, e.g. 13% for the one week tenor, but this will be difficult to sustain over several weeks.

➔ RUB: Enjoy rouble strength while it lasts

The rouble is the top performer in the emerging market FX space this year, rallying 6.2% against the US dollar year-to-date. A better global environment and higher oil prices, plus a credible central bank (implied 3m RUB yields at 7.5%) and a distracted Washington has all helped. But as our Russian Chief Economist, Dmitry Dolgin, writes, the [Balance of Payments story](#) is not quite as healthy as it may seem. Capital outflows in the first two months of the year offset 83% of the \$22 billion current account surplus and warns of rouble vulnerability when the current account surplus is seasonally weak in 2Q and 3Q. USD/RUB may therefore struggle to break 65 on a sustained basis and those accounts with long rouble exposure should look to increase hedge ratios ahead of 2Q-3Q19, when both the current account and the return of the US sanction threat will weigh.

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