

## Brexit division means limited upside for sterling

The UK Cabinet may have approved Theresa May's Brexit deal but significant hurdles remain and the near-term upside for the pound is limited



### ➔ GBP: More of the same political division

Although the UK cabinet collectively agreed on the text of a Brexit deal, GBP price action remains tricky and the near-term upside is fairly limited as:

- The main hurdle of the deal being voted through Parliament remains
- The backlash from Conservative MPs may trigger a vote of no-confidence
- Some ministers could potentially resign.

Such material division in the UK political scene (among parties as well as among the ruling Conservatives) suggests caution towards GBP ahead of the eventual Parliament vote on the Brexit deal (likely in December). Today, the focus is on PM Theresa May's presentation of the Brexit draft in Parliament. On the data front, October UK retail sales should show another solid reading, although we recognise the monthly numbers have been very noisy recently.

## ⬇️ USD: Only a short-term adjustment as the Fed remains on track

The dollar has been under pressure overnight, which we see more as a consequence of adjustments in short-term positioning (following solid USD gains) rather than a more meaningful shift in the perception of the dollar. With Federal Reserve Chair Jay Powell reiterating yesterday that the Fed is on track for further gradual policy normalisation, it is hard to see USD entering into a pronounced bearish trend. On the US data front, our economists expect a rebound in US October retail sales (following the depressed restaurant sales last month) signalling a good start to the fourth quarter for the US economy.

## ➡️ EUR: Rising on no new news

Given the lack of clear catalysts for EUR/USD strength, its latest rise back above 1.1300 seems a short-term positioning adjustment. In the central and eastern European space, EUR/CZK broke above the 26.00 psychological level yesterday, in part caused by weaker Czech Q3 GDP. We remain bearish on the Czech koruna into the year-end and now expect EUR/CZK to re-test this year's high of 26.18 as, among other things, the resolution fund related year-end fall in implied yields weighs on an overbought CZK.

## ⬇️ MXN: No option for Banxico but to hike

Barely a month ago, investors had felt that Banxico could ride out the remaining hikes in the Fed cycle without having to act. Since then the Mexican peso has fallen nearly 10% against the dollar and with inflation at 5% YoY, [Gustavo Rangel thinks Banxico has little choice](#) but to hike 25 basis points today to 8.00%. The turnaround in sentiment is largely due to local political factors, where the rejection of the international airport project by a public referendum and its subsequent cancellation – plus the prospect of greater state control over the all-important energy sector – have rekindled fears of a populist agenda from President-elect AMLO. Today's hike is fully priced in, but Banxico will need to threaten further hikes beyond today's move to halt the peso's decline.