

Brexit: One for the lawyers

Theresa May will claim she has secured a legal change to the Irish backstop, though it really is one for the lawyers. An approval of the new withdrawal agreement would be a huge surprise tonight and could send GBP/USD to 1.35



➔ USD: Playing second fiddle

For a change, the dollar is playing second fiddle to events in Europe, where Brexit dominates. We are still of the opinion, however, that the US money market rates curve is too flat and a gentle re-pricing this summer should keep the dollar strong against the low-yielders, particularly the Japanese yen. For today, let's see whether US small business optimism rebounds and core inflation stays near 2.2% to support our view of a Federal Reserve rate hike in 3Q. DXY may be volatile, 96.50-97.50.

➔ EUR: In sterling's slipstream

EUR/USD is getting a lift from sterling, though the pound could prove unreliable. Poor German industrial production data should keep the euro's tone subdued. EUR/USD capped at 1.1300.

⬆ GBP: One for the lawyers

Of the many event paths for sterling this week, the one that was least expected – Theresa May's

Withdrawal Deal getting approved – is back in the running. The central release after May met EU Commission President Jean-Claude Juncker yesterday is an instrument relating to the Withdrawal Deal that spells out the recourse to the arbitration panel (already in the Withdrawal Deal) should the EU try to apply the backstop indefinitely. The Prime Minister will market this as securing a legal change to the backstop, though it really is one for the lawyers. Here Attorney General Geoffrey Cox will address parliament this afternoon and presumably will revise his prior legal opinion that the backstop protocol could ‘endure indefinitely’. Sterling will likely stay bid through this period, although will be subject to much volatility as tweets emerge as to whether the Brexiteers or the influential DUP will support the deal – the vote takes place tonight. Having lost the first vote by a margin of 230, approval of the Withdrawal Deal would be a huge surprise tonight and could send GBP/USD to 1.35. Elevated levels of [short term volatility suggest that is possible](#), though perhaps not likely. More likely will be May losing the vote by a margin of 50-100 and cable being held in check by resistance at 1.3300/3350. But now is certainly the time for heightened volatility.

NOK: Regional survey should cement 25bp hike on 21 March

After a much higher-than-expected February CPI reading yesterday, an encouraging Regional Network survey from Norges Bank due at 10CET today should all but cement a 25 basis point rate hike on 21 March. This report should help frame the context for the Monetary Policy Report also released on 21 March and firm up the current near 80% probability of the 25 basis point hike. We're a little surprised that the krone has not been trading even stronger, but retain a view that EUR/NOK can push down to the 9.65 area over the month and potentially extend to the 9.50 area this summer if Norges Bank follows its lonely path of two rate hikes this year.

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