FX: Budget, Brexit and BoE offer Bullish hopes for the pound

Why major currency pairs could be becalmed in this Thanksgiving week

Source: iStock

USD: Time to embrace the serenity offered by the US holiday season

With US markets on Thanksgiving holiday from Thursday and few data catalysts in the G10 calendar, global markets may take a leaf out of the mindfulness playbook this week and embrace the relative serenity here and now – as opposed to anxiously looking ahead to what could be a turbulent end to the year. A sense of nervousness continues to brew amongst investors amid a flurry of profit-taking activity, rising US political risks and concerns over central bank policy mistakes.

On the latter, the FOMC minutes (Wed) will continue to allude to diverging views within the committee and is unlikely inspire much upside in US rates or the USD this week. Nonetheless, we expect the markets' Fed-obsession to come to a halt in 2018 as monetary policy re-pricing opportunities look to be greater elsewhere.

EUR: Cooler runnings after Merkel's 'Jamaica coalition' talks breakdown

In a lacklustre week for Eurozone data (with just PMI figures to note on Thu), it'll all be about ECB communications for euro markets over the next five days. The minutes of the October ECB meeting (Thu) will be surveyed for any active dissenters within the Governing Council, while investors will also be looking to speeches by Draghi (today), Couere (Tue) and Praet (Thu) for subtle clues over the timing of the ECB's first deposit rate hike.

Though officials have made it clear that this will not occur until the taper process has concluded, we suspect EUR bulls will be looking to pounce as early as possible on any pre-emptive hawkish re-pricing at the front-end of the Eurozone rate curve. We currently see this as summer 2018 story – after the passing of the Italian election risk – which could result in EUR/$ trading up to 1.25. Ahead of this, we expect consolidation in the 1.15-1.20 range, with fallout from the stalled German coalition talks adding a slight downside tilt to our EUR/$ bias this week. Expect the 1.1700/20 support area to hold for now.

GBP: A Tory Chancellor always pays his debts... or does he?

The stage is set for the UK's Chancellor Philip Hammond (pictured) to showcase his vision of a post-Brexit economy in this week's Budget (Wed) and despite being hamstrung by a weaker set of OBR fiscal forecasts, it's clear that the global investment community is in dire need of some Churchillian-like words of inspiration over the future of Britain. While this is being billed as a 'Budget for Homes', what will be equally important is whether we see a marked step away from the austerity years and more focus on public sector spending – where anything beyond the already planned lifting of the 1% pay cap for employees could be seen as winning political brownie points with disillusioned voters.

This may prove tricky for the fiscally prudent Hammond. Either way, GBP investors may need to look beyond the minutiae of policy detail in the Budget this week and focus on the degree of economic optimism struck by the Chancellor – especially as this may be fairly indicative of how close the UK government is to breaking through the Brexit impasse. Reports that the Cabinet will back PM Theresa May's increased Brexit bill offer is indeed good news for GBP bulls. Also this week, Bank of England officials will be testifying to parliament (Tue). The panel will comprise of the more hawkish MPC members (Vlieghe, McCafferty & Saunders) – and while this lends itself to some more upbeat commentary, officials will aim to keep their policy cards close to their chests amid a key period of Brexit talks. We also see upside risks to the 3Q UK GDP second reading (Thu).