

## FX daily: Activity currencies dealt a straight flush

Boris Johnson has won a landslide victory which means the UK is very likely to leave the EU in January. There has also been some momentum on the US-China trade deal, where the CNH has rallied 1.5% overnight. The expectation today will be for something more definitive – details on where/when the deal gets signed and whether roll-backs of tariffs are included



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### ➔ USD: Tory landslide, phase one trade deal and steady Fed all help risk

The good week for activity currencies just got better. The uncertainty over Brexit has been lifted. Boris Johnson's landslide wins means that the UK is very likely to leave the EU in January and a sizeable majority buys him time to negotiate trade deals and probably push through an extension to the transition period.

At the same time, there seems some genuine momentum on the US-China Phase One trade deal, where the CNH has rallied 1.5% overnight. The expectation today will be for something more

definitive here – e.g. details on where/when the deal gets signed and whether roll-backs of tariffs are included too.

All this follows the FOMC meeting, where the Fed effectively promised to leave the 75 basis points of easing in the market unless there was a material change in the economy. Bearish steepening of yield curves seems the right reaction here and the dollar should continue to soften against the high yielders and activity FX.

Our top picks in our [2020 FX outlook](#), NOK, CAD, NZD, RUB, BRL and KRW should all continue to perform well. The JPY is probably the preferred funding currency just right now given the improvement in trade and perhaps the EUR picking up a very small tail-wind from the GBP rally.

## ⬆️ EUR: Be a little careful on EUR/USD upside

We've been at pains to point out that the EUR is emerging as a funding currency – and thus doesn't need to rally much on a risk rally. Let's be careful today, just in case a re-rating of Europe (e.g. a big rally in European equities) prompts a little more follow-through EUR/USD rally. 1.1250 is the risk

## ⬆️ GBP: A working majority should help

Boris Johnson's big win saw GBP outperform what was priced in the FX options market. It's probably unwise to expect a lot more [GBP upside in the short term](#), although the move is playing out in line with the [large Tory majority scenario](#) we had been discussing. That could mean Cable pressing onto 1.40, but that's more a story for 2020.

Back to today, the 8 GMT open for Gilts and the FTSE could add some more momentum to GBP. A 10bp rise in Gilt yields and a 2-3% rise in FTSE could send Cable to 1.3550/70 – probably the best levels of the day.

## ⬆️ RUB: One more cut

We look for the Russian central bank to cut 25bp today, taking the key rate down to 6.25%. That will mark 150bp of easing this year. With a policy rate of 6.25%, Russia still enjoys high real rates (2.75% using the current inflation), which should keep the RUB supported into year-end.

This especially so since the central bank's commentary today may focus on the limited prospects for further rate cuts, even as inflation continues to fall (to 3.2% YoY in December and to 2.3-2.5% YoY in 1Q20). We expect RUB to retain those gains through 1Q20.

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