

FX Daily: GBP weighing the threat of a French veto

France has toughened its stance and threatened to veto any Brexit deal considered disadvantageous for the bloc. Markets are still assessing how much this is simply part of the negotiating strategy, but with any deal having to be agreed within the next few days it is no surprise investors are getting increasingly nervous



📌 USD: Dollar rebound short-lived on stimulus hopes

The rebound in the dollar seen yesterday proved to be quite short-lived as the risk-positive advances on the vaccine and US fiscal stimulus fronts ultimately prevailed in keeping risk assets supported. On the US fiscal package, some material developments have been made after Democratic leaders accepted the \$908bn bipartisan proposal as a base for negotiations, retreating from their original plans for a \$2.4tn package. Still, a compromise by the end of the year is anything but assured, with the pressure now back on GOP Senate leader McConnell to negotiate a bipartisan deal.

Following some quite disappointing ADP employment numbers yesterday, initial jobless claims will be watched closely today ahead of tomorrow's payrolls. Also in the calendar today are the services ISM figures for November, where consensus is positioned for a fairly moderate contraction

to below-56 levels.

Meanwhile, OPEC+ members will resume talks today as they seek an agreement on pausing output hikes for longer. All in all, stimulus and vaccine remain the key driver, and for now, it still appears that they can add more fuel to the risk-on/dollar-off narrative.

EUR: Still inching higher

EUR/USD is enjoying consolidation above 1.2100 largely on the back of the dollar's inability to rebound as the EUR lacks idiosyncratic drivers for the moment.

Let's see at what point the doubts about a post-Brexit trade deal start to spill-over into the EUR.

GBP: France toughens its stance

Sterling had a grim day yesterday as some news suggesting a higher-than-perceived risk of a no-deal Brexit pushed EUR/GBP well above the 0.9000 mark.

After Michel Barnier reiterated how disagreement on some core issues remains, France has toughened its stance and threatened to veto any deal considered as disadvantageous for the bloc. Markets are still assessing how much this is simply part of the negotiating strategy to put pressure on the UK to budge, but with any deal having to be agreed within the next few days it is no surprise investors (who have retained an optimistic tone on Brexit so far) are getting increasingly nervous.

The final word may not come before the weekend or next week, but for now, there is surely room for GBP volatility to rise further.

JPY: Dollar's weak momentum putting a cap at 105

The sell-off in rates is leaving the highly-correlated yen unable to take advantage of the generalised dollar weakness.

For now, vaccine and stimulus hopes may leave appetite for JPY quite subdued, although the dollar's underperformance should keep USD/JPY firmly below the 105.00 mark.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s),

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.