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 divers 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