

FX Daily: Limited near-term upside for sterling from here

The pound weakened a little following the first Johnson-Corbyn debate as polls showed a tie, suggesting the Labour leader performed better than expected



USD: FOMC Minutes reiterating the well-known message

The FOMC Minutes to be published today should reinforce the Federal Reserve's wait-and-see, data dependent approach, with the Committee wanting to take stock of the impact from the three consecutive rate cuts seen this year. This means a fairly uneventful impact on the US dollar following the recent aggressive reduction in anticipated cuts (with a full cut only priced in by 3Q20). USD currently benefits from its safe haven characteristics, as the passage of legislation in the US Senate supporting Hong Kong protesters risks retaliation from China and raises doubts about the US-China trade deal agreement.

➔ GBP: Limited near-term upside from here

Sterling weakened modestly following the first Johnson-Corbyn debate yesterday as polls showed a tie, suggesting the Labour leader performed better than expected. This signals that the Conservative party lead in the polls is unlikely to be extended, meaning that EUR/GBP should stay firmly above the solid 0.8500 support level for now. Equally, and despite the better than expected Corbyn performance, it seems too early to price in a more credible probability of a hung Parliament. One point of note from the debate was PM Johnson's assertion that he would get the trade deal done by the end of 2020 (when the transition period ends). We see this as highly unlikely and expect the matter of extending the transition period (and the associated uncertainty about whether it will get passed in Parliament) to be one of the risk factors for GBP (thus limiting potential sterling's gains) in the second quarter next year.

➔ EUR: Firmly range-bound EUR/USD, HUF rebound after NBH meeting

EUR/USD has settled firmly in the narrow 1.1000-1.1100 range and today's lack of data suggests a continuation of the trend. The Hungarian forint rebounded sharply yesterday following the National Bank of Hungary's policy meeting. In our view, this is partly caused by the misinterpretation of the central bank's statement by some investors that it will review its policy stance based on the December Inflation Report. This is not new news (as NBH does so every quarter) and we don't expect tighter policy.

➔ CAD: Inflation still no concern for BoC

We have a strong suspicion that the Bank of Canada is closer to easing monetary policy than the market is implying and we see a non-negligible risk of a cut as soon as next month. External woes and some signs of economic slowdown justify an "insurance" cut, although inflation is unlikely to suggest any need to ease. We expect October CPI numbers to confirm this by showing that inflation has remained fairly solidly around the BoC target's mid-point. In turn, USD/CAD should be able to consolidate below the 1.3276 200 day moving average, at least until Friday, when another slowdown in retail sales may give markets the chance to price in more easing.

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