

FX Daily: Momentum with the Tories

The pound is getting a boost from weekend opinion polls showing the Tories extending their lead over Labour



USD: Dollar can hold gains against low yielders in a quiet week

It is a [quiet week for scheduled releases](#) and in the absence of major political developments, investors will probably want to sit with those currencies offering at least some positive yield. That means the dollar can probably hold its gains against the euro and Japanese yen, while some renewed interest can be seen in commodity currencies – where the Canadian dollar offers the highest risk-adjusted yield in the G10 space. If a theme is to develop this week, it might be one along the lines of ‘is the medicine working?’ – i.e. is confidence/activity improving after some quite aggressive monetary easing this year and some calming in trade tensions? Offering some insights into this theme could be the first look at Korean trade data for November (first 20 days data released Thursday) and also the eurozone PMIs on Friday. A good barometer for this story will be whether AUD/USD holds above the 0.6770 support level through the week. Elsewhere, we see the Trump impeachment process largely as noise to the dollar at this stage, but the market may well start taking greater interest in the debates of the Democrat candidates (Wednesday). DXY to trade a 97.70-98.40 range through the early part of the week.

➔ EUR: Looking ahead to ECB minutes and PMIs

Most have assumed that the European Central Bank is done with easing now and the release of the minutes of Mario Draghi's last ECB meeting (Thursday) may shed light on how stiff the resistance is to easier policy from Northern Europe. Also, look out today for comments from ECB Chief Economist Philip Lane at 1420CET. 1.0990-1.1110 is [our expected range for EUR/USD this week](#).

⬆ GBP: Momentum with Tories and the GBP

Weekend opinion polls show the Tories extending their lead over Labour to the 15-17% range – which is giving the pound a boost in early Europe. Voters will be eagerly awaiting the first televised election debate between Boris Johnson and Jeremy Corbyn, which takes place tomorrow night at 21:00CET. Johnson has traditionally been seen as the stronger performer at Prime Minister's Question Time (Wednesdays in the Commons), thus short term GBP bulls will probably be happy holding their positions into Wednesday. EUR/GBP can probably work its way towards 0.8500. For our full election scenario analysis, [please see here](#).

⬆ BRL: Line in the sand?

With greater pressure on authorities to allow currencies to free float, we are hearing far less about 'lines in the sand' these days – i.e. particular levels that authorities will defend to prevent too much appreciation/depreciation of their own currency. Yet we like the Brazilian real and assuming events in Chile/Bolivia don't spread more broadly in Latam, we think the USD/BRL line in the sand at 4.20/25 will hold.

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