

## FX Daily: Pound to stay rangebound as BoE meets

The Bank of England's policy meeting today should have a fairly limited impact on the pound, as political developments remain in the driving seat



Source: Source: Bank of England

### ⬇️ USD: Room for short-term EM FX and cyclical G10 FX outperformance

Although there have been reports that the signing of the US-China trade deal may be pushed into December, US officials just confirmed that there is scope for the US to roll back some of the tariffs in phases as the deal progresses. This should be seen as another positive signal for the trade negotiations and general risk sentiment. Short-term, this opens room for emerging market FX and cyclical G10 FX outperformance vs the dollar. Yet, the dollar should retain some ground against low yielders such as the euro.

### ➡️ EUR: Disappointing German industrial production keeps euro's prospects muted

Catalysts are scarce for any dollar decline and the uninspiring eurozone story (soft growth and inflation, exhausted ECB toolkit and low probability of a meaningful fiscal stimulus) point to modestly lower EUR/USD in coming weeks. On the data front, [disappointing German](#)

[September Industrial production](#) this morning provides a case in point.

## ➔ **GBP: BoE playing second fiddle to the early election**

The Bank of England should retain its cautious bias today as a highly uncertain election campaign is underway. Growth forecasts will likely be revised down amid investment uncertainty but the tightening bias should be retained on a smooth Brexit assumption ([see BoE Preview](#)). The meeting should have a fairly limited impact on the pound given that (a) the outcome of an early election should be the prime driver of sterling in coming weeks; (b) the BoE's interest rate path is conditional on the outcome of Brexit talks. As the latter is firmly tied to the former, the continued signalling of a hike should have a muted impact on GBP. We look for rangebound pound ahead of the elections, with a possible weakening bias should the pre-election polls start to show an increased likelihood of a hung Parliament.

## ⬆ **CZK: Hawkish hold**

We expect a hawkish hold from the Czech National Bank today ([see CNB Preview](#)). Although the central bank will likely keep rates unchanged, it may not rule out eventual hikes if external risk factors (German slowdown, trade war uncertainty and Brexit) subside. The CNB staff forecast should continue to recommend a hike. As the CNB is likely to keep the door open for a potential conditional hike, downside to the koruna should be limited today and EUR/CZK may yet again break 25.50 if Governor Jiří Rusnok strikes a relatively hawkish tone in the press conference.