

FX Daily: Sterling rally looks overdone

EUR/GBP is trading around its lowest level since mid-2017. We wouldn't be surprised to see a minor correction



UK prime minister,
Boris Johnson

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➔ USD: Pressured by trade optimism

Another turnaround in trade-related rhetoric yesterday revamped appetite for risk assets and dampened demand for the Japanese yen and Swiss franc. Market optimism rose on speculation that the US and China are closing in on an agreement to remove tariffs amid a more constructive tone from President Trump. Still, with the news flow constantly changing on this topic, caution around the risk-on wave remains warranted. For now, the supportive risk environment is keeping the dollar on the backfoot, but supportive rates are partly offsetting such effect. On the data side, we expect the US trade balance to have widened (more than consensus) in October but most attention today will be on the OPEC meeting in Vienna, as reports suggest another output cut will be discussed. Here's our commodities team [preview note](#).

➔ EUR: Still unmoved

EUR/USD has remained in a tight range in the last two sessions, unable to consistently cash in on the broader dollar weakness. We expect this will continue to be the case moving ahead as the

euro shows characteristics of a funding currency and is unable to fully benefit from rebounds in risk sentiment. Today, the final reading of third quarter GDP will be closely watched along with October retail sales. With the data flow in the eurozone likely to remain quite uninspiring, a decisive break above 1.11 in EUR/USD still appears unlikely.

GBP: Correction ahead as optimism overdone?

EUR/GBP is trading around its lowest level since mid-2017 as polls indicate the Conservative Party is cementing its lead over Labour. Investors see a Tory majority win as the most market-friendly scenario ahead of next Thursday's vote, and are hoping to see a resolution to the Brexit gridlock. The move in sterling, however, looks slightly overdone considering the still non-negligible possibility that Prime Minister Boris Johnson won't be able to reach a working majority in Parliament. We would not be surprised to see a minor correction in sterling in the next few days, although the polls have likely formed a fairly solid floor for the currency heading into the election.

CAD: A more constructive tone by the BoC

In a much-anticipated decision, the Bank of Canada kept rates on hold yesterday. However, a surprisingly upbeat message, particularly on the global economy- which it sees as "stabilising"- helped to move the market. 10Y rates in Canada jumped by almost 10 basis points and pushed USD/CAD below 1.32. Looking ahead, we continue to see room for a rate cut in 1Q20, despite markets now having priced out most of it. For now, CAD will heavily rely on developments in crude prices as OPEC members are due to announce their decision today.

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