

## FX Daily: The clock is ticking for sterling

Time is running out for a Brexit deal to be struck and the pound is vulnerable



British Prime Minister Boris Johnson welcomes European Commission President Ursula von der Leyen to 10 Downing Street

Source: Shutterstock

### USD: Temporary pause in the dollar decline

After its pronounced decline in recent weeks, the dollar is stabilising in line with the pause in risk assets as plenty of good news has now been priced in and Covid cases in the US continue to rise. We see this as a temporary pause in the dollar decline and look for more to come, with the nearest possible triggers being further progress on US fiscal stimulus or an eventual agreement on the EU budget/ Recovery Fund and Brexit negotiations – all of which could spur further gains in risk assets and weigh on the dollar.

### EUR: Rangebound trading ahead of super Thursday

EUR/USD should hover around the 1.21 level ahead of the European Central Bank Meeting and the EU Summit on Thursday. Given non-negligible market expectations of further ECB easing and the structural USD decline in place, it will be difficult for the ECB to lean against the wind and tame the euro upside.

## ➔ GBP: Highly asymmetric reaction function

GBP has stabilised after the initial sell-off yesterday and pared most of its losses as Prime Minister Boris Johnson and European Commission President Ursula von der Leyen agreed to meet in Brussels this week (likely ahead of the EU summit on Thursday). As per [Brexit: Five thoughts as decision time looms](#) we think a UK-EU trade deal narrowly remains the most likely outcome of talks, which should lead to an eventual but modest GBP rebound. We reiterate what we see as an asymmetric GBP reaction function to the UK-EU trade negotiation outcome, with modest upside in the case of a deal but profound downside in the event of no deal as fairly limited risk premium is currently priced into GBP. This is evident in our short term financial fair value model as well as in speculative positioning (where we recently saw [position-squaring of GBP shorts](#)). In our base case of a deal, we look for EUR/GBP to dip to 0.88 and range trade around this level throughout next year.

## ➔ HUF: Normalising inflation suggests further normalising in HUF volatility

In Hungary, we expect November CPI to stay unchanged at 0% on a monthly basis (mainly due to fuel prices), meaning that headline CPI should dip below 3% year-on-year to 2.9% YoY. While core inflation is expected to remain unchanged at 3.8% YoY, it still means lower price pressures vs the central bank's forecast. With CPI on a declining trajectory (we expect headline CPI to average 2.8% next year, below the target) this means that the worst for the forint is behind us and HUF volatility should be lower vs what was observed this year – recall that spiralling CPI was the main reason behind the idiosyncratic HUF weakness early this year. Should the dispute between Hungary and Poland vs the EU on the rule of law issue be resolved (our base case) we expect EUR/HUF to eventually re-test 355.

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