FX Daily: The ‘now or never’ moment is here

Boris Johnson and Ursula von der Leyen meet over dinner in Brussels today to try to revamp hopes of a UK-EU trade deal. Sterling remains highly exposed to the downside if the prospect of no deal materialises.

USD: US stimulus talks enough to cap the dollar

US stimulus hopes continue to offer support to risk assets, but G10 currencies are showing very contained volatility at the moment, likely taking a wait-and-see approach ahead of the very busy second half of the week when we could see news on a Brexit deal, the EU summit and European Central Bank meeting. In the US today all eyes will be on further developments in bi-partisan talks on fiscal stimulus. Treasury Secretary Steven Mnuchin presented Nancy Pelosi with a $916 billion proposal, but the cool reaction from the Democrat side has suggested that more talks are needed. Still, the proactiveness shown by the parties involved is proving enough to keep markets upbeat, and this should limit the ability of the dollar to
recover. No data releases worth highlighting today on the US calendar.

**EUR: Holding pattern**

EUR/USD has found some consolidation above the 1.2100 mark, and may remain in a holding stance before the event-packed Thursday, unless some material developments in Brexit talks spill over into the euro.

**GBP: Johnson-von der Leyen meeting will tell us a lot**

Today, Boris Johnson and Ursula von der Leyen will meet over dinner in Brussels to try to revamp hopes of a UK-EU trade deal after the latest comments by officials from both sides highlighted lingering divergences on some key points (above all, the level playing field). The decision by the UK government to withdraw the law-breaking clauses from the Internal Market Bill yesterday was seen as a positive development, however. Gauging how much the recent downbeat comments are part of negotiating tactics or truly indicate a widening gap between the two parties is hard to know. What is clear is that there is hardly any time left for further talks and markets will likely require some positive news from Brussels today to retain their optimistic stance on a deal. Sterling remains highly exposed to the downside if the prospect of no deal becomes even more realistic.

**CAD: Another quiet BoC meeting**

Since the 5 November Bank of Canada meeting, Canada has recorded strong employment gains and signs of a recovery in inflation which have offset the quite grim September GDP numbers. Also, oil is up by some 20% and vaccine hopes have started to materialise in major economies. This means that the BoC has no tangible reason to add stimulus in the foreseeable future and we expect the Bank to keep rates and other policy tools unchanged today. If anything, the broadly positive developments could warrant more hawkish rhetoric, but we think Governor Tiff Macklem will continue to err on the side of caution and leave the door open for more easing if needed, considering the still uncertain path for recovery as the contagion picture remains concerning. We expect a contained and short-lived impact on the Canadian dollar, which will stay primarily driven by external factors.

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