

FX Daily: Time running out for a Brexit deal

Sterling remains in wait-and-see mode as yet another unofficial deadline for the EU-UK trade deal is breached. Given that time for a deal is running out, we could see both parties rush into a deal as early as this week, which could have material implications for the pound



Source: iStock

📉 USD: Back on a slippery slope

Risk assets are starting the week on the front foot as investors focus on the news that some advisers in President-elect Biden's virus-response task force are arguing against a national lockdown and upbeat industrial output numbers out of China overnight. Also in Asia, 15 Asian-Pacific countries signed the RCEP trade deal on Sunday, which may represent a step in the direction of further consolidation of China's economic and diplomatic role in the region.

At the same time, markets appear to be turning a deaf ear at reports suggesting President Trump may double down on his trade spat with China before leaving office by imposing more sanctions and trade restrictions. In FX, the usual risk-on picture is emerging: USD is underperforming other safe-havens and the rest of G10 while NOK is leading gains for the pro-cyclicals. Today, the US calendar only includes the Empire Manufacturing, which is expected to have modestly rebounded

in November but should have very limited market implications.

Looking at the rest of the week, the US economic performance will come under scrutiny as retail sales, industrial production, and housing data are released.

👆 EUR: Many speeches by Lagarde, but Brexit may be the key driver

EUR/USD is starting the new week by following the same upward trend shown in the second half of last week, now testing the upper half of the 1.18 region. USD may stay the main driver of the pair for most of this week, or at least until we see material developments on a Brexit trade deal as other idiosyncratic drivers for the EUR may remain scarce, with only consumer confidence on Friday standing out in the Eurozone calendar.

A number of speeches (including a hearing at the EU parliament) by ECB President Christine Lagarde may also generate limited EUR impact as she has recently shown reluctance to deviate from the Bank's main rhetoric and the QE expansion in December is fully priced in.

👆 GBP: Another missed deadline

Sterling is staying in wait-and-see mode as yet another unofficial deadline (yesterday) for a EU-UK trade deal has been breached.

Our UK economist keeps noting that the prospects of a deal are looking slightly brighter, but also that (a) the core set of issues remains largely unresolved; (b) time for a deal is running out and while we see officials suggesting more than one week may still be needed, the technical time for ratification in the EU and UK is dangerously shrinking.

In light of this, we could see both parts rushing into a deal already this week, which could have material implications for the pound, and UK data including (CPI, retail sales, PMIs) will likely play second fiddle this week.

➡ AUD: Eyes on Lowe's speech this morning

The Reserve Bank of Australia cut rates and expanded quantitative easing only two weeks ago, but the question about whether it has run out of firepower remains open.

We don't rule out Lowe erring on the side of caution and staying extra-dovish, but at this stage, we are reluctant to see more rate cuts by the RBA.

Currency comments (Lowe has so far said AUD in line with fundamentals) will, as usual, have a magnified effect on AUD.

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