

## FX daily: UK election to have asymmetric FX impact

The ECB meets for the first time under president Christine Lagarde but barring any major shifts in language, the impact on EUR/USD should be limited. On the contrary, expect some sizeable spillover effect from the UK elections. We think EUR/GBP can drop to 0.82 if Boris Johnson wins with a solid margin while a hung parliament could cause a rally to 0.87



### ⬇️ USD: No hawkish tilt by the Fed

A widely-anticipated hold by the [Fed yesterday](#) added to the USD negatives as the dot projections pointed to a longer-than-expected accommodative stance. Our economists expect two more cuts in early 2020. In the next 24 hours, the dollar will be driven by safe-haven flows as the results of the UK election emerge. Expect a solid Conservative win to pressure the dollar across the board.

[Why we see the opportunity for a couple more rate cuts in early 2020](#)



## EUR: UK elections to overshadow ECB

As the ECB meets today, for the first time under Christine Lagarde, any shift in the policy stance seems unlikely. The economic outlook hasn't deteriorated further since Mario Draghi left office, but inflation remains stubbornly low and external risks linger.

As highlighted in our [ECB preview](#), most market focus will likely be on the press conference by President Lagarde, who has so far been quite reticent on monetary policy themes. Also, details on the strategic review and the updated staff projections will be watched. But barring any major shifts in the Governing Council language, the impact on EUR/USD may be relatively limited. On the contrary, expect some sizeable spillover effect from the UK elections.

We see EUR/USD facing a similar asymmetric reaction as GBP/USD, albeit significantly smaller in terms of volatility.

[Four things to watch at Lagarde's first ECB meeting](#)

### GBP: Asymmetric reaction

It's election day in the UK and first exit polls should be out around 22h00 (all times GMT).

The first partial results around 0100AM but only after 0300AM the most closely contested seats will be declared. Our "[GBP and UK election: Asymmetric sterling reaction](#)" article outlines the different scenarios and market impact in detail. The key takeaway is that market pricing is leaning towards a Conservative majority, so GBP upside potential is more limited than downside if the result is a hung parliament or a Labour minority win. We think EUR/GBP can drop to 0.82 (Cable 1.35) if Boris Johnson wins with a solid margin, while a hung parliament may cause a rally to 0.87 (Cable 1.26).

[Read ING's UK election cheat-sheet](#)

### UAH: Investors expecting a large rate cut today

Ukraine has been the top-performing hard currency debt this year and the UAH has rallied 17.5% year-to-date against the USD.

The NBU have done a good job of controlling inflation, where CPI has recently dropped to 5.1% YoY – the lowest levels since March 2014. Investors are expecting a large rate cut (cons. 100bp) at today's NBU rate meeting (1200 GMT), but such a cut would still leave the real policy rate near double digits. Monday also saw the IMF agree a new \$5.5bn loan with Ukraine, important for next year's debt roll-overs, while the NBU's cost of sterilising FX intervention means that NBU dollar buying has been less aggressive than some might think. This is all a positive story for UAH, but the spectre of Privatbank hangs heavy over the market.

Here investors are closely awaiting the 19 December local court ruling over the 2016 privatisation. Any judgement seen favouring the former shareholders would likely hit the UAH.

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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