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Article

## FX: No snap or crackle as Chequers goes pop

The stabilisation in risk sentiment continues and there's been limited reaction in FX markets to the EU's rejection of the UK's Brexit plan

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### EUR: Limited EUR/GBP reaction to the Salzburg stand-off

The reaction in EUR/GBP to the EU's rejection of the so-called Chequers plan during the Salzburg summit yesterday was fairly muted as it is seen by investors as political window-dressing (particularly ahead of the Conservative party conference next weekend ) rather than a material change in the odds of the eventual deal. Hence, we see the upside to EUR/GBP as fairly limited today. The focus this morning turns to September PMIs. Our economists look for very modestly lower outturns in line with the slowdown of other eurozone confidence indicators recently. Overall, this should have a fairly limited effect on the euro with the general USD softness vs the G10 FX segment continuing to support EUR/USD.



### USD: Dollar softness to continue

The stabilisation in risk sentiment continues and the US dollar remains soft against both G10 and emerging market FX segments. In the US, we look for a solid US September Manufacturing PMI today (ISM surveys have rebounded and higher oil prices continue to boost oil exploration), underlying the robust US economic position. Yet, with plenty already priced in for the Fed for the remainder of the year and emerging market and higher beta G10 currencies already recording non-negligible losses (with concerns about trade wars and idiosyncratic EM risks previously weighing on this group), the solid US data points today should have a limited effect on sentiment and the dollar. The short-term bias remains for a modestly softer DXY.



### CAD: Still high inflation but the BoC adequately priced

For the Canadian dollar, the focus is on the August inflation figure today. While headline CPI came in at a monumental 3.0% year-on-year last month, core inflation lags (around the 2.0% level) and unless we see a major uptick in core CPI dynamics, we think markets are correctly pricing in just one more Bank of Canada rate hike in 2018 (at the October meeting). Indeed, it's hard to see the BoC being too aggressive on policy tightening given the risks to household debt. As a result, a print around 2.8% is unlikely to prompt meaningful CAD gains (in the absence of US-Mexico-Canada trade deal agreement), with USD/CAD remaining around the 1.2900 level.



## BRL: Presidential race narrows

In Brazil, the likely outcome of the upcoming presidential election (7 October) has narrowed considerably, but Brazil's post-election economic policy outlook remains highly uncertain. Still, we believe that the Brazilian real's (BRL) outlook has improved with (a) the falling risk of a [Ciro Gomes](#) victory and, (b) signs that [Fernando Haddad](#), if elected, would pivot to a more pro-market stance. As a result, we suspect that the BRL weakness may be limited to the current range, with a much-reduced risk of a sustained surge above USD/BRL 4.20. [See Brazil: The presidential race narrows for more details.](#)

**Petr Krpata, CFA**

Chief EMEA FX and IR Strategist

+44 20 7767 6561

[petr.krpata@ing.com](mailto:petr.krpata@ing.com)

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