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Article

## FX: Squeaky Brexit bum time

Signs of Brexit nerves in markets have become more evident this week but we suspect the pound may be fairly immune to negative headline risks

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### USD: Markets get POWell'd but Fed Chair's rhetoric may already be priced in

Global risk sentiment took a hit after what was perceived to be a hawkish debut testimony from Fed Chair Jerome Powell. Investors latched onto his comment that the US economic outlook has improved since December – with some corners of the market seeing this as a signal for potentially four Fed rate hikes in 2018. The risk is that this is not signalled at the March FOMC and the dollar may have overreacted.

### EUR: Headline Eurozone CPI may dip... but it's all about whether core stays at 1.0%

There are downside risks to today's headline February Eurozone CPI inflation release after yesterday's miss in the German CPI data. Yet, we prefer to focus on the core CPI reading and maintain the view that this needs to cement itself above the 1.0% YoY level over the coming months for the EUR's bullish medium-term trajectory to remain intact. In the immediate future, softer Eurozone data has coincided with a narrower focus on looming political event risks (namely 'Super Political Sunday' which sees the Italian election and SPD grand coalition vote) – with EUR crosses drifting lower this week in response (ie, EUR/CHF below 1.15). Any miss in the Eurozone CPI data will add fuel to the downward EUR/USD correction towards 1.2100/30.

### GBP: Big few days ahead but the pound showing immunity to negative Brexit headline risks

Signs of Brexit nerves in markets have become more evident this week – with GBP/USD trading at a 1.0-1.5% discount relative to our short-term financial model estimates (which based on relative interest rate differentials, relative domestic risk gauges and proxies for global risk points to a fair value for the pair in the region of 1.40-1.41). In a way, it is completely understandable to see GBP trading with a short-term Brexit risk premium – not least when investors are confronted with headlines stating that there are still 'sticking points' between the UK and EU in regards to a transition deal. But whether it's Brexit fatigue, the Divorce Deal precedence of a last-minute agreement or 'FOMO' on a positive re-pricing of Brexit risks, the pound's relative resilience – noting the stability in EUR/GBP within the narrow 0.87-0.89 range – is quite telling of how investors may be less inclined to chase a negative Brexit headline. The next few days will be a big test of this –

starting today with the European Commission's release of its first draft of the Brexit 'Withdrawal Agreement'. The narrative that has been priced into GBP markets this week is one of no real Brexit consensus emerging between UK and EU officials – and so we suspect GBP, under this new Brexit trading environment, may be fairly immune to negative headline risks.

## SEK: Don't go chasing EUR/SEK highs... Swedish GDP & Ingves on the horizon

Swedish 4Q GDP data today comes at a crucial time for the krona, with EUR/SEK reaching a fresh eight-year high yesterday and now firmly trading above the 10.05 level. ING's Jonas Goltermann is looking for a slightly below consensus print of 0.8% QoQ (cons: 1.0%) – which could see a knee-jerk move higher in EUR/SEK towards 10.08-10.09. But in the grand scheme of things, we suspect investors will still view this as a decent GDP release and therefore we may need to see a bigger negative surprise for a beaten down SEK to sustainably weaken further from here. On the flip side, any small positive GDP surprise – or confirmation of a strong Swedish economy – could see SEK pare some of its [recent inexplicable losses](#). Governor Stefan Ingves also speaking later (1700 CET).

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