

FX: The pound is stuck in a delay dilemma

More uncertainty is being priced back into GBP - here's what to watch in the currency markets this Wednesday



↑ USD: Finding respite

The USD recovered some losses yesterday thanks to markets scaling back Brexit optimism. However, any further rebound in the greenback is likely to be challenged by the increasingly solid expectations of a Fed cut next week ([which is also our view](#)) and the still optimistic newsflow when it comes to trade negotiations with China. Elsewhere, the rest of this week will be dominated by a slew of central bank announcements in Europe, with the [ECB](#), [Swedish Riksbank](#) and [Norges Bank](#) all meeting tomorrow. For today, the USD may capitalise on good momentum to extend gains on further sliding global sentiment.

→ EUR: Sitting on the sidelines

The EUR kept piggybacking on the pound in yesterday's price action around the UK parliamentary vote and may continue to do so in the coming days. Ahead of tomorrow's ECB meeting, that is expected to carry a limited surprise potential, 1.1135 (100-d MA) may prove a fairly solid resistance for EUR/USD.



GBP: Back to a wait and see range?

Once again, a session in the UK Parliament yields more questions than answers. MPs gave initial consent to the Brexit Withdrawal Agreement Bill (with a solid 30-vote margin), but the PM's proposed fast-track timetable was rejected. Johnson announced he will pause legislation on the deal whilst waiting for the EU27 decision on the Article 50 extension. The result was a drop in sterling as the prospect of another delay dented investor optimism for a quick resolution and likely increased the perceived risk of snap elections.

At this stage, many options remain on the table. Johnson would ideally like a short-extension (a couple of weeks) to keep pressure on the House, but the EU may be little inclined to take such risk and will likely deliver a longer extension (possibly until Jan 2020). Once the length of the delay is set, Johnson will decide whether to try and go straight to elections – although it's not clear Parliament will let him do this right now. Alternatively, he could press ahead with the legislation, where the next step would be for MPs to put forward amendments.

Looking at the FX-impact, the current situation suggests that: (a) more uncertainty is being priced back into GBP; (b) the downside for GBP still seems quite limited given that Johnson now appears to have a majority to back his deal. In turn, the pound may drop some of the recent high volatility and get stuck in a "wait-and-see", relatively tighter band, possibly hovering around the 1.28-1.29 area vs the USD.

ZAR: In the mood to buy bonds

EM local currency bond indices are performing well this month as investors focus on the external positives. EM high yield FX, in particular, has done well as investors chase local bond stories on hopes of aggressive easing cycles in the likes of Russia, Brazil and Mexico. Key event risks in South Africa, including the budget statement on 30 October and Moody's ratings decision on 1 November, however, mean that the SARB is cautious about cutting and that the immediate upside for SAGBs may not be as large as that for some other high yielders. That said, any downside surprises in South African Sep CPI today would probably be seen as a net ZAR positive and could help USD/ZAR towards the 14.45 area.

Authors

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.