FX: UK's spring budget break. Party on?

Chancellor Philip Hammond will likely announce small adjustments to the OBR's projections in his Spring Statement today. Here's how we expect the FX market to respond

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GBP: Less gloomy OBR outlook may vindicate resilient pound

For GBP markets, there will be a narrow focus over the next 10 days on whether a Brexit transition deal can be struck at the 22-23 March EU leaders summit; we got a brief glimpse of how sterling might react on any confirmed agreement – with the currency nudging higher on comments by Brexit minister Robin Walker that a transition deal is "very close" to being finalised. Still, we remain in wait-and-see mode – with only EU confirmation over any transition deal progress to further lift GBP higher this week (we would expect GBP/USD to move above 1.40 on any positive outcome at next week's summit). For today, the attention shifts to the Chancellor's Spring Statement – where any good news may come in the form of small adjustments to the Office for Budget Responsibility's projections, namely a narrower budget deficit for 2017/18 and perhaps an upward revision to the 2018 UK GDP growth rate (1.5% current). The former – as well as the prospect of lower debt issuance in 2018/19 – is widely expected and hence we would expect any positive impact in gilt and GBP markets to be fairly short-lived (GBP/$ resistance at 1.3930/40).

USD: Bar confirmation of the late cycle, CPI may do little for dollar

While investors await nervously to see what comes next of President Trump's trade spat with the rest of the world, the focus today turns to a fairly crucial US CPI report given the prevailing goldilocks market backdrop that has transpired in recent trading sessions. We think fears over escalating US inflation may, in fact, be put to rest today – with the latest CPI figures set to show headline inflation staying rooted around 2.2-2.3% YoY (largely an oil price and base effects story), while importantly the core reading is expected to print unchanged at 1.8% YoY.

Indeed, after the low wage inflation reality check in the February US jobs report, bond market bears may for now find little evidence in a benign US inflation backdrop to justify adding to short positions. Moreover, with the Fed tightening cycle all but perfectly priced into the US curve, there may be very little positive dollar signals for markets to extract from today's CPI report – beyond confirmation of a late-cycle US economy. USD/JPY continues to trade directionless in the near-term – with yen strength stemming from the political scandal involving the Japanese Finance Minister Tarō Asō proving to be fairly short-lived. The consensus narrative now seems to have joined us in calling for USD/JPY to move to 100 –the speed at which we get there (and whether we undershoot this level) depends on US trade policy.

EUR: Stuck in consolidation mode

EUR/USD is set to remain stuck in consolidation mode given the lack of a near-term catalyst (US CPI not a game-changer). 1.2270/90 to provide support today

CAD: Governor Poloz may look to play it cool

After the Canadian dollar's tariff-driven rollercoaster ride last week, the currency looks to have stabilised at the start of this week – although we note that a degree of investor scepticism remains despite the exemption from US steel and aluminium tariffs ($/CAD 1-month risk reversals continue to trade at their highest levels since May-17). The highlight today is a speech by Bank of Canada Governor Stephen Poloz – who may shed further light on the central bank's policy bias after a fairly ambiguous statement last week. Markets are 50:50 over the prospects of a May BoC rate hike – and this is probably fair for now given the uncertain US trade policy (and NAFTA) backdrop.