

## FX: Waiting game continues

The stalemate continues on both sides of the Atlantic, with no resolution to the US government shutdown or to the next steps on Brexit



US Capitol

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### ⬆️ USD: No breakthrough in shutdown talks

Volatility levels across asset markets continue to fall as investors await outcomes on key issues, such as: (i) the US government shutdown, (ii) US-China trade talks and (iii) Brexit. There's been little material progress on any of those, which leaves financial markets in a state of limbo. Despite the potential harm delivered by the shutdown to the US economy, the dollar is too expensive to sell and safe-haven alternatives (euro and Japanese yen) are proving unattractive. And despite the slowdown in China (and Asian activity data), investors still seem drawn to high-yielding, undervalued currencies such as the Turkish lira and the South African rand. We still expect the dollar to outperform the low-yielders (DXY can drift towards the 97 area), but favour selective positions in emerging markets – particularly those with positive exposure to energy prices.

### ➡️ EUR: Trapped in tight ranges

EUR/USD is going nowhere fast and this week's focus will be on Thursday's ECB meeting – where

the ECB may have to acknowledge that downside risks to growth have increased. 1.1300-1.1450 looks the range trade here.

## ↓ GBP: Where's the deliverable deal?

Prime Minister Theresa May seems to be making little progress in cobbling together a deliverable deal on Brexit. Her engagement with the opposition seems to have fallen on deaf ears and instead it looks like she's trying to win over the Tory Brexiteers again by trying to renegotiate the Irish back-stop. May is due to come back to parliament this afternoon to discuss Plan B, but reports suggest there has been little progress here. The market will doubt that the renegotiation of the Irish backstop is a path to an agreement and instead will be more interested in the various amendments that will be tabled through the early part of the week. Amendments including the path to a second referendum may briefly lift the GBP, although the 1.29/30 area in cable may now look good near-term resistance and recent GBP bulls could become increasingly frustrated.

## ↓ RON: Bank tax in focus

In contrast to the Hungarian forint's outperformance last week on expectations for the central bank to normalise monetary policy, the Romanian leu is performing poorly as investors digest the government's proposed tax on banking assets. The fact that the tax is linked to the ROBOR policy rate, and the degree to which it ties the hands of the central bank in terms of future policy direction, seem to be unnerving investors. The NBR typically has strong control of the leu, but EUR/RON is currently in search of a new trading range – perhaps with an upper boundary as high as 4.75.

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