GBP: A bit of Brexit, a bit of seasonal weakness
The pound weakened to its lowest level against the US dollar and euro since Sep/Oct 2017 on Wednesday. It's not all down to Brexit.

GBP: Current weakness may be due to seasonal factors
The pound weakened to its lowest level against the US dollar and euro since Sep/Oct 2017 yesterday – with the independent GBP weakness since last week's Bank of England rate hike in part reflecting the switch of focus by investors towards heightened no-deal Brexit risks. Indeed, when a UK cabinet minister puts the odds of a breakdown in Brexit talks at 60% - that is difficult for any investor to ignore (even if one sees this as political posturing). However, we wouldn't be too hasty in apportioning all of GBP's weakness towards increased Brexit uncertainties. Not only are we in a thin summer market, we also note that seasonality trends over August do not favour the pound; the currency has posted seven significant monthly losses (>0.5%) against the US dollar over the last nine years – with the average move in GBP/USD over the last nine Augusts being -0.97% (note the equivalent metric for GBP against the EUR is -0.98%). Depending on how you spin it, one may argue that GBP's move lower this month is temporary and likely to correct once we get through the summer period. Alternatively, further weakness may be on the cards should the noise around a no-deal Brexit pick-up in the coming months. We sit in the latter camp for now – and have pencilled in GBP/USD falling to 1.27-1.28 (EUR/GBP to 0.91-0.92) in 3Q18. But if momentum takes us to these levels too quickly, then risk-reward would favour positioning for GBP upside under the Brexit status quo.

USD: Geopolitical flare-ups may see investors flock to the dollar
Politics continues to wreak short-term havoc in global FX markets – and to the extent where we're questioning whether any currency is truly safe. With the US and China going back and forth on tariffs, perennial uncertainty over the White House’s next trade move, US sanctions on Russia and Turkey, rising tensions in the Middle East and Europe masked by Brexit and Italian political risks – there is no getting away from the summer of geopolitical angst (at least for those of us stuck at our desks). Even Canada has been caught up in the geopolitical cross-fires this week, with reports that Saudi Arabian officials have actioned a fire sale of Canadian assets (though we see limited fallout for the Canadian dollar, with positive Nafta news far outweighing). In Russia, the rouble looks set to stay under pressure in the coming months as the US mood turns darker ahead of November mid-terms. One bill in the Senate prohibits participation in new Russian sovereign bond issues. All this geopolitical noise may keep the USD bid in the near-term (The dollar index anchored around 95).
EUR: Monthly ECB bulletin may provide some insight into policy thinking
While it’s a quiet day for data, we will get the European Central Bank’s monthly economic bulletin published later today (1000 CET). Look for EUR/USD to stay anchored below 1.16.

NZD: RBNZ’s no appetite for a rate hike message being heard loud and clear
The overall message from the Reserve bank of New Zealand meeting overnight was broadly the same – with officials noting that the next policy move could be up or down. However, there was a big dovish signal in the RBNZ’s flatter-for-longer projected path for the OCR – with the central bank now not foreseeing a rate hike until late 2020 (around 12 months later than what was anticipated at the May meeting). This dovish shift in the RBNZ’s projected OCR path was enough to see NZD/USD take out the 0.67 support. We may see further kiwi weakness as markets adjust to a central bank that has no appetite to hike – but we note that there is hardly any tightening now priced in over a two-year horizon. This may limit kiwi’s short-term pain.