

GBP: A new hope for a soft Brexit

If Dominic Grieve's amendment to avert a no-deal Brexit is discussed in parliament today, we expect GBP volatility to be revived. Elsewhere, all eyes will be on James Bullard's comments as the market awaits Fed Chair Jay Powell's testimony on Wednesday



British members of parliament debating Brexit proposals

➔ USD: Focus on Fed's (dovish) speakers

The week started on a fairly muted note for the dollar and for the FX markets, in general. The big theme clearly remains the strong June jobs report and the implication for the Fed's monetary policy. Investors seem to have high expectations for Chair Powell's testimony tomorrow as they attempt to assess the magnitude and timing of the upcoming FOMC moves. Today, markets will look for clues from a crowded schedule of Fed speakers in an attempt to anticipate tomorrow's testimony by Powell. The Fed Chief will himself deliver a speech today when opening a panel on stress-testing, but we attach a very low probability to any policy-related comment. What is likely to attract most attention will be comments from St. Louis Fed President James Bullard, arguably the most dovish member of the FOMC. He previously expressed the idea that the Fed will need to cut rates by 50 basis points by year end, but later acknowledged that a 50bp move in July was likely excessive. Should he reiterate this view, markets will likely further consolidate their current expectations for a 25bp cut on 31 July, keeping rates and the US dollar broadly unchanged. Comments by another dove, Atlanta Fed President Raphael Bostic, will likely have a less relevant impact given that Bostic is not a voter this year. All in all, we expect today's speeches to provide only small hints about tomorrow's testimony by Powell and expect the dollar to stay range-bound throughout the day.

➔ EUR: Testing QE speculation

A calm day data-wise should allow EUR/USD to consolidate marginally above the 1.120 support. Some comments by Bank of France Governor Francois Villeroy may attract attention if he addresses the possibility of the ECB restarting quantitative easing after yesterday's comments by the ECB's Benoit Coeure on this subject weighed on the euro.

⬆️ GBP: Grieve's amendment to revive volatility

It may turn out to be a key day for sterling after MP Dominic Grieve proposed an amendment to avert a no-deal Brexit. According to the proposal, parliament would be required to be in session every two weeks until 18 December. This would likely compromise any plan of Prime Minister-in-waiting Boris Johnson to suspend the legislature and bypass parliament in order to force a no-deal exit on 31 October. The House Speaker may or may not select the amendment for today's debate, which may explain why GBP has still failed to move on the news. We expect, either way, to see some volatility today in the pound, where a vote in favour of the amendment may trigger a jump in GBP/USD towards the 1.26 level. EUR/GBP is close to a key 0.90 resistance, which may be tested should the amendment fail.

⬆️ MXN: Inflation may hint at less easing ahead

The Mexican peso has been steady among the top performers in the emerging market space across the last few days. Today, focus will be on June's CPI number, with the 4% level in the year-on-year headline print to prove crucial in directing speculation about possible Banxico monetary easing ahead. We suspect market easing expectations (54bp priced in for the next six months) may prove excessive should inflation fail to materially surprise to the downside. In turn, we see some scope for further MXN appreciation and expect USD/MXN to keep descending towards this year's low of 18.7544.

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