GBP: Alternative comedy - without the laughs

The failure to extend Article 50 isn't a knockout blow for sterling but disappointment over a more clouded path to a second referendum could see cable dip back to the 1.2920 area

USD: Fed shifting to a data dependent approach should support risk assets

Financial markets remain in a cautiously pro-risk mode as investors hope for some better news on US-China trade relations (fresh talks start today) and the threat of higher US interest rates (and a stronger dollar) remains in abeyance. On the latter, the FOMC meets to consider rates today and Chair Jay Powell delivers a press conference at 2030CET. As per our Fed Preview, we think it's not all doom and gloom in the US right now, but it looks too early for the Fed to emphasise the narrative of further tightening and instead will let the data dependent/pause story linger until some of the early year uncertainties are resolved. This should allow investors to continue to seek returns in some undervalued markets (surveys show strong appetite for emerging markets), leaving the dollar soft against the high yielders but relatively flat against the low yielders of the euro and Japanese yen. In terms of today's US data, the 4Q18 GDP release has been delayed until next week, though we will see the ADP jobs data. This represents private sector employment and should be less impacted by the government shutdown (though contractors may be hit). A 180k+

figure should maintain the view that the US labour market is tight and that wages in Friday's NFP report will remain on the high side. We have a slight bias to 95.00 in DXY today.

EUR: French GDP surprises on the upside

In the first piece of positive European news in a long time, French 4Q18 GDP surprised on the upside at 0.3% quarter-on-quarter. Investors are underweight Europe and completely priced out the normalisation of ECB policy in 2019, thus any upside surprises could gain some traction. (4Q18 eurozone GDP is released tomorrow). EUR/USD has been showing some resilience recently and barring fresh negative news on trade and the pro-risk mood, EUR/USD could press the 1.1500 area.

GBP: 'Alternative arrangements' will need to be made

Key votes in parliament last night saw: (i) a majority finally backing a plan – May returning to Brussels to formally renegotiate the Irish backstop and (ii) parliament approving a non-binding declaration that it doesn't support a No Deal. Sterling has sold off on the failure of the Cooper amendment (to take negotiations out of the government's hand were there No Deal by 26 February) and as James Knightley writes, there will be much volatility over the next two weeks since it looks as though parliament will be voting again on 13/14 February. This isn't a knockout blow for GBP – a path for an orderly Brexit is still possible – but disappointment over a more clouded path to a second referendum could see Cable dip back to the 1.2920 area. More volatility is assured.

MXN: Downside risks to 4Q18 GDP today

We've been backing the high-yielding Mexican peso in January - and it's performed quite well - but it could face challenges from a soft 4Q18 GDP figure today. This could raise the prospects of new AMLO-appointed Banxico board members turning more dovish at next week's first meeting of the year. A mini-scare over a more politically driven Banxico could trigger a correction in USD/MXN to the 19.30 area into next Thursday's rate meeting.

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