GBP: Assurance, reassurances and rejection

The pound looks incredibly vulnerable right now and could fall another 3.5%

GBP: Another 3.5% decline would see the 2008 and 2016 low re-tested

It is not clear what assurances Prime Minister Theresa May hopes to acquire in her four day trip across Europe and it would seem unlikely that whatever she secures is enough to win support in parliament for her withdrawal deal. ING's James Smith has provided an update of possible scenarios here. GBP looks incredibly vulnerable to most scenarios and in terms of levels, we can see the Bank of England's Broad Effective Exchange Rate Index retesting the lows seen in December 2008 and October 2016 – that means GBP can fall another 3.5%, e.g. EUR/GBP to 0.9350, Cable to 1.21/22.

USD: Impressive dollar performance owes to others' misfortune

Given the 30 basis point fall in two-year US dollar swap rates over the last month, one might have expected the dollar to be a lot lower. The fact that the DXY is less than 1% away from the highs of the year largely owes to the misfortunes of other trading blocs – such as the political disarray in Europe and clear signs of slowing in China. The resignation of Urjit Patel, Governor of the Reserve Bank of India, on Monday also serves as a reminder that the 2019 political calendar will be no less fraught - general elections take place in India (April/May), EU (May) and Argentina (October). Elsewhere, we think the US money market curve is now priced far too flat (70% of a Fed hike 19 December and barely another 25 basis points for the whole of 2019) and a re-pricing of that curve will take the dollar to new highs in 1Q19 (e.g. 1.10 for EUR/USD and perhaps 117 for USD/JPY.) For today, expect the market to be dominated by European politics again and assuming the US NFIB small business survey doesn't show unexpected weakness, the DXY can retest the highs of the year at 97.70.

EUR: French concessions pave the way for tougher Italian negotiations

In a surprise move, French President Emmanuel Macron has offered concessions of EUR10-12 billion to address France's 'social state of emergency'. Some estimates suggest this could push France's budget deficit to 3.6% of GDP next year. Rome will be monitoring events closely and will be in no mood to commit to a 2% budget deficit target. Europe is struggling to sell itself as an investment destination right now. EUR/USD is underperforming rate spreads and could easily slip to 1.12.

HUF: Fall in CPI and its implication for rates suggests modest downside to currency

In Hungary, our economists see headline CPI inflation dropping significantly in November, by 0.5 percentage points to 3.3% year-on-year on the back of fuel and food prices, as well as seasonal factors. If our forecast is right, we expect the National Bank of Hungary rate-setting meeting next week to be a dovish event for the markets. To the extent to which some investors looked for a premature NBH tightening which would support the forint, today's inflation outcome suggests modest downside to the currency.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer