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Article

## GBP: Back to life, back to MV3

If Brexiteers are scared into submission and a third Meaningful Vote is somehow passed or a softer Brexit emerges over the coming weeks, sterling could rally further

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### USD: US economy quietly performs

While a lot of the focus this week has been on Brexit, on the other side of the Atlantic, the US economic data is proving constructive. US core capital goods orders were above expectations in January and it's possible that the NY Fed's Nowcast model (updated on a Friday) lifts its 1Q19 GDP run rate of 1.4%. 1Q19 was always expected to be the softest quarter of the year – and it's not looking too bad. With the commodity complex looking strong (both crude and industrial metals are pressing higher) and decreasing signs of a disorderly Brexit, we continue to favour risk assets and a weaker Japanese yen on the crosses. USD/JPY is performing well, as it typically does at the start of 2Q, and is our preferred vehicle to play dollar strength – especially with the chances of the Bank of Japan turning more dovish at tomorrow's monetary policy meeting. Look for USD/JPY to trade to 112.20 and DXY to trade 96.20-97.00, limited by the re-rating of European FX.



### EUR: Not so bad after all

The eurozone economic surprise indicator is actually enjoying a decent recovery and does not lend support to arguments of an imminent recession. It's a big if, but if some clarity could emerge on Brexit over the next month, European business confidence would presumably get a lift and the EUR/USD support level at 1.12 could strengthen. There's little eurozone data today, but it looks as though sterling will stay bid and as long as the 0.8500 area continues to support in EUR/GBP, EUR/USD could trade up to the 1.1370 area.



### GBP: The return of the Meaningful Vote

Although it was non-binding, last night's vote that parliament would never countenance a No Deal Brexit at least demonstrates a coalition of the willing – and has supported the pound. Prime Minister Theresa May has now artfully returned her Meaningful Vote to today's motion on a short Article 50 extension to 30 June. If passed, MV3 needs to happen before 20 March, such that May has a reason to ask the EU for a short delay. Recently we've been suggesting that cable can be volatile in a 1.30-33 range (which it largely has), but if momentum is moving towards either: a) MV3 somehow being passed as Brexiteers are scared into submission or b) a softer Brexit emerging through MV3 failing and alternatives (Norway+, customs union) coming to the fore via indicative votes, then GBP could rally further. Certainly we would not recommend selling GBP, and a cable move through 1.3350/3400 could trigger more sizable gains.



## MXN: Industrial production surprised on the upside

An upside surprise in Mexico's industrial production yesterday suggests Mexico is not falling off an activity cliff. We continue to like the high yield Mexican peso (8.25% 3m implied yield) and flattening trades in MXN money markets. The oil rally helps.

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