

GBP: Bar still high for Withdrawal Agreement

While the EU didn't completely dismiss the UK's new Brexit proposal, we think the odds of success are still quite low. As such, upside to sterling is limited from here



British Prime Minister Boris Johnson gesturing to Labour party leader Jeremy Corbyn during a session in the House of Commons

Source: Shutterstock

↑ USD: ISM Sep non-manufacturing should, in relative terms, hold

After a dismal September ISM manufacturing report on Tuesday, markets will be closely watching the non-manufacturing data today. Our economists expect the reading to, in relative terms, hold (i.e. the decline should be rather modest) - it is less globally orientated, not tariff impacted and less dollar influenced. While this may tame concerns about a more meaningful US slowdown, it would also signal that the Fed easing cycle may not be overly aggressive, in turn, underlining the case for the high yielding dollar - vs the non-optimistic outlook for emerging market FX, as the Fed is unlikely to provide the needed boost to risk sentiment.



EUR: Sluggish outlook – both for the economy and the currency

Following the softer-than-expected September eurozone CPI on Tuesday, the focus today turns to August retail sales. The volatile indicator ticked down in July and without a bounceback in August, consumer spending could well contribute negatively to GDP growth in 3Q. With the European Central Bank providing insufficient stimulus to change the eurozone inflation and growth outlook (the former is particularly evident in declining inflation expectations) and the economy remaining fragile, the euro is set to continue struggling.

➔ GBP: Bar still high for the Withdrawal Agreement to be accepted by the EU

In the UK, we are looking for another soft PMI Services reading as wider uncertainty is weighing on the service sector, though it is unlikely to be as weak as the manufacturing PMI yesterday. The UK government presented a new Brexit plan to the EU (two borders for four years). While the initial response from the EU wasn't completely dismissive, previous comments from Irish officials suggest the bar for acceptance of such a proposal remains high. In addition, it is still uncertain whether such a proposal would get through Parliament (particularly as the government lost its majority last month). We thus see upside to GBP as very limited from here.

⬆ CHF: ECJ ruling on Polish mortgage case could lift the CHF

Today is a big day for the CHF/PLN cross rate. As [our team in Warsaw details](#), the European Court of Justice will rule on whether a Swiss franc mortgage offered by a Polish bank back in 2008 was abusive and whether the debt should be converted back into Polish zloty at the original FX rate. The ECJ is expected to rule in favour of the debtor, which is expected to give rise to further lawsuits and potentially pressure Polish banks into paying down PLN130 billion of FX debt – largely in Swiss franc. Our team see EUR/PLN drifting to and holding near 4.40 as the ECJ ruling prompts follow-up lawsuits, while EUR/CHF should press and ultimately break strong support at 1.0800/30.

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