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Article

## GBP: Carry on Guv'nor?

Bank of England Governor Mark Carney will face questions from MPs later about possible plans to extend his stay beyond next June. We think continuity could be supportive for sterling but, at the same time, personnel changes are unlikely to be a game-changer for UK markets

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### GBP: Near-term outlook remains murky but stay nimble

It's been a miserable start to the week for the pound hit by a triple dose of bad news – feeble UK activity data (manufacturing PMI miss), doubts over Prime Minister Theresa May's tenure (domestic political risks) and opposition from the EU over the PM's Brexit Chequers proposal (no deal Brexit risks). Thrown into the mix of headline chaos is the question of whether Bank of England Governor Mark Carney will stay on at the helm of the central bank beyond June 2019. Indeed, this will be the hot topic when BoE officials – including the Governor himself – testify to the Treasury select committee later today (1315 BST). We take the view that the policy continuity which would ensue under Governor Carney extending his term would be supportive for sterling (and short-term UK rates) as it would reduce a source of policy uncertainty over the next three to six months at a time when the currency is likely to be riddled with other Brexit-related uncertainties. But in reality, personnel changes at the helm of the BoE are unlikely to be a game-changer for UK markets at a time when the major driver for the economy, central bank policy and financial assets is Brexit. Here, we think the stream of news over the next month will be broadly GBP negative as a divisive UK parliament squabbles over what the best Brexit policy approach should be. The difficulty of forging an 'all for one and one for all' Brexit strategy will see question marks over PM May's leadership persist in the near-term – with this negative sentiment being reflected in the price of GBP. Yet, we advise GBP investors to remain nimble with their positions; we've argued that chasing GBP much lower from these levels is unattractive from a risk-reward perspective and we see greater opportunities to the upside (see [GBP: Barnier's Brexit Boost](#)).

### USD: ISM manufacturing miss will confirm peak in USD cycle

At a time when the US dollar is running out of fresh impetus, we see waning cyclical US economic momentum – with the second quarter being a high-water mark for growth – as an emerging negative factor for the USD. Here, the focus today will be on August ISM manufacturing – and there's a good chance of a sharper retracement given the growing signs of a trade war blowback on US activity (as regional indices show).

### EUR: Breakdown in EUR/CHF captures rising Italian, geopolitical risks

It's difficult to pitch a constructive euro story when Italy continues to cast a dark cloud over the

single currency. The breakdown in EUR/CHF best captures these risks and while we see the Swiss National Bank intervening down at these levels (below 1.1250), the franc safe-haven demand may also be gaining traction due to a bleak global risk environment and looming US sanctions on Russia. If such forces continue, they will be difficult for the SNB to fully offset. We see risks of EUR/CHF at 1.10 in September.

### Scandis: Short SEK given event risks

With two huge domestic event risks over the coming week, we remain tactically bearish on the Swedish krona. Ahead of the Swedish elections this weekend (9 September), we see a status quo dovish Riksbank keeping a lid on SEK upside, with the central bank delaying the projected timing of its first repo rate hike (from October to early 2019) and citing concerns over low core inflation.

Despite a possible rate hike dissent, we doubt the Riksbank's tone will convince investors to enter long SEK positions ahead of the Swedish election – where the risks are asymmetrically skewed to favour SEK downside given the likelihood of a hung parliament and an extended period of political uncertainty. We still forecast EUR/SEK at 11.00 into year-end.

