

GBP: Come on Arlene

Heading into next week's key October EU summit, the pound is looking buoyant amid speculation that a Brexit Withdrawal Agreement is almost done. But much rests on the DUP's Arlene Foster...



➔ USD: Unnerving times for USD bulls with Trump openly lamenting about the Fed

'Not happy', 'Gone loco', 'Out of control', 'Too aggressive'. No, this isn't just a summary of our mood here on a Friday morning – but in fact all the ways that President Trump has lamented about the Federal Reserve raising interest rates this week. While to a large extent, USD markets are taking these comments with a grain of salt, not least when the US economic backdrop is as impressive as it has been of late, we do think that the President's frank criticisms of the Fed can be likened to poking a bear with a stick – at some point investors may lose faith in the credibility of Washington's economic policy agenda and the risk here is that a speculative FX market positioned heavily long US dollar chooses to collectively dump the greenback. The administration's questionable dollar policy is also a risk; while there are some nerves about the Treasury's upcoming FX report ([our preview](#)) – reports suggest that China won't be labelled a currency manipulator.



EUR: Gently moving higher but look for 1.1630 to provide strong resistance

A lack of catalysts today means that EUR/USD could fall shy of moving above the 1.1630 level (100-day moving average). Expect the Italian budget noise to be a limiting factor.

📈 GBP: Agreement of a politically viable Brexit deal could see cable at 1.34-1.35

A buoyant pound heads into next week's key October EU summit trading on the sentiment that a Brexit Withdrawal Agreement is almost done. But we wouldn't be surprised if there's some degree of lingering scepticism – not least with the Salzburg disappointment fresh in investors' minds and the seemingly trivial, yet significant, UK political hurdles that still need to be overcome. The agreement of an exit deal between the UK and EU – which requires both a solution on the Irish border backstop and a high-level political declaration on the future trade deal – might not be enough to see GBP rally on a sustainable basis. We think any deal announced would need to stand the following test for GBP to hold onto further gains:

1. The deal is able to command a majority within the UK parliament
2. The high-level future trade agreement doesn't tie the UK to an obvious hard Brexit trade deal.

[As ING's economists note](#), it's the former that will be the main challenge – with the DUP (and Tory Brexiteers) not quite on the same page as Prime Minister Theresa May. Still, we do think any announced exit deal as early as next week that meets the above two tests would see markets all but fully price out the risks of a no-deal Brexit – thus fuelling further bullish GBP momentum. We target GBP/USD moving to 1.34-1.35 (to the 200-day moving average) in the coming months – with a potential overshoot to 1.37-1.38, if external geopolitical risks (Italy, emerging market rout, US-China trade tensions) fade and the USD weakens heading into the US midterms. Seems quite a rosy outlook – but with the DUP's Arlene Foster a key player in any Brexit deal getting through the UK parliament, GBP bulls could be left singing 'Come on Arlene... at this moment, you mean everything' next week.

📈 TRY: Pastor Brunson release looks to be in the price but lira to stay supported

The Turkish lira has been performing well this week on expectations that Pastor Brunson may be released from house arrest in Turkey. It is the fourth hearing at the second high criminal court in Izmir today and President Erdogan has said he will abide by whatever decision the judiciary takes. The release may already be in the price of the lira – although confirmation of this outcome would likely elicit some warm words from the US administration and perhaps a some TRY upside. Challenges remain for Turkey but a lifting of US sanctions would be TRY positive.

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