

GBP: Finding the silver lining

Sterling has taken the Brexit vote in its stride. Here's why



Theresa May, UK Prime Minister

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Despite the staggering scale of the loss in the Meaningful Vote and the Labour party triggering a vote of no-confidence, the FX market has found a silver-lining and sterling has strengthened. This is likely a function of (a) rather low probability of today's no-confidence vote being successful; (b) increased likelihood that Prime Minister Theresa May is likely to have to (eventually) seek cross-party support for the next deal, with the perceived odds of Article 50 extension rising. Indeed, we estimate that the probability-weighted outcome for GBP has marginally improved - by one big figure for both EUR/GBP and GBP/USD based on our estimates. Still, the near term price action for GBP will remain very bumpy. There remains a non-negligible likelihood of a hard Brexit (around 20% in our view) with a potential detrimental outcome for the pound. This makes outright long GBP positions tricky, particularly in the context of the upcoming negotiations (domestically among the Conservative party MPs and wider parliament, and externally with the EU), which are unlikely to be straightforward. Still, as per our note [Brexit and the bumpy ride to its eventual recovery](#), we see material upside to the heavily undervalued GBP (the cheapest in the G10 FX space) by year-end, as by then we expect a market-friendly resolution of the Brexit stalemate. Brace for ongoing volatility.



USD: Lack of US hard data points due to government shutdown

Despite low confidence among investors on the global growth outlook and risk assets, an absence of negative news on US-China trade talks and a cautious Federal Reserve should keep higher beta and emerging market FX supported today. The lack of US hard data (US retail sales are not being published today due to the government shutdown) should also help to keep risk-sensitive currencies in check, at the margin.

➔ EUR: EUR/USD to hover around 1.1400

The euro continued to struggle following the soft German 2018 GDP yesterday and we expect EUR/USD to hover around 1.1400 today. In Poland, core inflation likely fell by another 0.1 percentage points to 0.6% year-on-year. Yet with the market largely pricing in cuts for 2020, the effect on the zloty should be negligible.

⬆️ TRY: CBT staying on hold

Our economists expect the Central Bank of Turkey to keep rates unchanged today with the latest inflation outlook still providing little relief. The central bank should also maintain a hawkish bias. In isolation, this should be positive for the Turkish lira, as the market is pricing CBT cuts in excess of 150 basis point cuts in one year's time. However, bar the near-term reaction, the TRY upside should be fairly limited given the current geopolitical concerns and the approaching local elections in late March.