

## GBP: Justifiably collapsing implied volatility

With the Bank of England unlikely to provide a catalyst for higher GBP and not much being done on the Brexit front in coming weeks/months, GBP price action should remain muted. In response to the Conservative Party leadership battle, we look for more EUR/GBP upside in Q3



Source: iStock

## USD: Improving trade balance

The US Federal Reserve trade balance should show signs of improvement given that companies appear to have ramped up imports in 4Q18 to avoid paying the proposed tariff hike on Chinese imports that were set to be implemented on 1 January. This should be marginally supportive of USD and keep the dollar stable against G10 peers.

In Canada, we look for stable March CPI at 1.5% YoY. The story behind price levels in March shouldn't be too different from what we saw in February, as the negative effect of energy prices slowly dissipates.

This, in turn, suggests a rather range bound USD/CAD today.

## EUR: Waiting for tomorrow

It should be a rather calm day for the EUR today ahead of the crucial April PMIs tomorrow. The February eurozone trade balance should have a fairly limited impact on the euro. EUR/USD to remain close to the 1.1300 level.

## GBP: Justifiably collapsing implied volatility

We look for a slight uptick in headline March UK CPI from 1.9% to 2% due to household energy costs. Still, the overall picture is fairly benign, and combined with better wage growth, is more encouraging for consumer spending. But given the not long enough extension of Article 50, we're not looking for a reaction from the Bank of England. With the central bank unlikely to provide a catalyst for higher GBP and not much being done on the Brexit front in coming weeks/months, GBP price action should be more muted.

This is evident in the collapse in EUR/GBP implied volatility (with the EUR/GBP volatility curve now being naturally upward sloping, vs the inversion ahead of the Article 50 extension). We look for more EUR/GBP upside in Q3 in response to the Conservative Party leadership battle.

## PLN: More upside if eurozone data continue to stabilise

Our economists expect Polish figures on the labour market to be relatively upbeat: a stable increase in employment to 2.9% YoY and a modest deceleration in wages to 6.8% from 7.6%, with the lower wage growth, probably driven by negative statistical effects in the construction sector. With PLN already benefiting from accelerating CPI inflation, today's data should have a more limited effect.

The key driver for PLN for the rest of the week will be eurozone data (PMIs tomorrow) with any upside surprise translating into EUR/PLN testing the 4.2700 level.

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