# GBP: More downside ahead

Tuesday's vote on the Brexit deal poses very real risks to sterling

Source: iStockphoto

## USD: More upside vs emerging market Asia FX

The ongoing tensions between the US and China following the arrest of the Huawei CFO in Canada (China summoned the US ambassador in response) are clearly negative for EM Asia FX. Coupled with what we see as a bottoming in oil prices following the OPEC+ cuts on Friday (which in turn provides a limited offsetting factor to the current negative sentiment for oil importing Asia FX), this should solidify EM Asia underperformance vs the rest of EM FX today. While supported against EM Asia FX, the dollar is trading on the back foot against the rest of the G10 (bar the politically poised GBP) as the decline in US Treasury yields following the November US employment report weighed on the currency. Yet, as per NFP Review, our economists expect wage growth to accelerate in 1H19, in turn keeping the Fed on the tightening path next year. This should be USD supportive in 1H19.

## GBP: More downside ahead

The focus of the week for sterling is tomorrow's Meaningful Vote on the Brexit deal. With Prime Minister Theresa May set to lose the vote, speculation has been growing that the vote may be postponed. Yet this was rejected by Brexit secretary Stephen Barclay yesterday. The likely loss in the Parliament vote (potentially by a large margin), accompanied by the growing risk of a leadership challenge or a no-confidence vote should be all GBP negative and send EUR/GBP above

0.9000 this week. We estimate that there is still room for a short-term political risk premium to be priced into GBP which is currently worth 2% based on our models (vs 3-4% back in late August). The downside to GBP is hence very clear.

## EUR: Higher EUR/USD is currently largely about the weak dollar

EUR/USD got a boost from the decline in US Treasury yields. As we view the recent dovish re-pricing of the Fed as unjustified, we expect the upside to EUR/USD to be rather limited over the coming months. In Norway, both headline and core CPI surprised on the upside this morning. We don't expect this to alter the non-event like outcome of the Norges Bank meeting later this week. But a bottoming in oil prices (see OPEC+ cuts output), solid GDP growth in the first half of 2019 and a similar amount of tightening from both the Norges Bank and Riksbank, suggest more upside to the Norwegian krone than the Swedish krona over the coming months.

## CZK: Short-term negative from below consensus CPI

In the Czech Republic, we look for a below-consensus CPI (1.8% year-on-year vs 2.0%) due to a fall in fuel and food prices. Such an outcome should be negative for the koruna (CZK) as it will further add to the recent dovish repricing of the central bank rate hike path (which we see as overly dovish and unjustified). EUR/CZK to re-test 25.90. Yet with CZK not delivering the projected tightening of monetary conditions and CPI likely to rebound back above the 2% target in 1Q19, we see the central bank hiking rates three times by August 2019.