

GBP: Moving towards 'flexextension'

The focus this week turns to the European Council meeting on Wednesday where leaders meet to decide whether to allow a further extension to the Article 50 period



Source: iStockphoto

➔ USD: Higher oil prices favouring LatAm FX

With a fairly quiet week on the US data front (the main focus is on March inflation on Wednesday) and the US-China trade talks seemingly heading in the right direction, we expect the trade-weighted dollar to remain broadly stable this week. The rise in the oil price due to the fighting in Libya should favour LatAm FX vis-à-vis emerging market Asia and the EMEA currencies, as this is the region most exposed to commodity/oil prices. Coupled with the attractive carry, we continue to underline the attractiveness of the Mexican peso.

➔ EUR: The ECB is unlikely to deliver another surprise this week

The EUR/USD 1.1255 level should act as strong resistance today with the cross lacking meaningful catalysts for any move higher. For the euro, the focus will turn to the ECB April meeting this week (Wednesday). But after the March meeting, which saw policymakers take a surprisingly dovish turn, we expect calm. We don't think the ECB will announce further details of the built-in incentives for the next Targeted Longer-Term Refinancing Operations (TLTROs) or of any tiering system this week.

⬇️ GBP: Moving towards 'flexextension'

Following Prime Minister Theresa May's request to extend Article 50 (until June), the focus turns to the European Council meeting this Wednesday where European leaders will meet to decide whether to allow a further extension to the Article 50 period. Our base case is that Brussels will grant an extension, assuming the UK gets the ball rolling on holding European parliamentary elections in May. However, any extension is likely to last much longer than May might want. As our economists suggest (see [Our view on next week's key events](#)) some form of 'flexextension' is possible, where Article 50 is extended by 9-12 months, with an option to shorten it if parliament approves a deal. As per the current Labour-Conservative negotiations, no agreement has been reached yet as it looks very difficult for both parties to overcome their own red lines.

⬆️ CZK: Short term positive momentum

The expected rebound in February Czech Industrial production and the further decline in March unemployment rates should be supportive for the Czech koruna today and build positive short-term CZK momentum ahead of the March CPI reading later in the week (Wednesday). With the general risk appetite also stabilising (following reports of progress in the US-China trade negotiations and some better eurozone data) we expect EUR/CZK to continue testing the 25.60 level. We don't expect the CZK gains to last and EUR/CZK to reverse the current depreciation trend from 2H19 onwards. The Czech National Bank getting closer to the end of the tightening cycle should take away one of the key supporting factors from the koruna.

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