

## GBP: Road to recovery?

The Labour Party's backing for a second referendum hasn't had much impact on the pound. Here's why



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### ➔ USD: Sinking volatility favours carry

Another day of USD/Majors going nowhere is another positive day for carry trade strategies. Carry trade strategies are predicated on lower volatility (improving risk-adjusted returns) and thus are performing well as G7 FX volatility sinks to the lowest levels since early last year. We doubt Federal Reserve Chair Jerome Powell's testimony to the Senate Banking Committee (today at 1545CET) will change this environment. Given the absence of inflation it seems the Fed is prepared to run the economy a little hot and will today seek to justify the Fed's patience on rates and its intention to stop shrinking the balance sheet later this year. The market already fully prices one 25 basis point Fed cut within two years, thus US interest rates shouldn't have to fall too far. We favour JPY underperformance on the crosses and DXY continuing in its well-worn 96-97 range.

### ⬆️ EUR: Getting a lift from GBP

In a quiet day for the eurozone, the euro may get a lift from sterling and the Brexit story. Also look out for testimony from the European Central Bank's Philip Lane at 1030CET, nominated to be the next ECB Chief Economist. Favour EUR/USD to 1.1400.

## **GBP: Sterling's gains have been modest**

One might have thought sterling would be a lot higher today, now that Labour has come off the fence and backed the path to a second referendum (assuming their preferred path to Brexit and a permanent customs union can't be delivered). And Prime Minister Theresa May now, for the first time, is countenancing a short Article 50 delay should her withdrawal deal be rejected in a vote by 12 March. Holding GBP back may be the fact that the trade-weighted level is barely 0.5% away from the January highs and thus has some of the good news in it already. (Back in mid-late January, GBP did well on the prospect of a long Article 50 delay from the Cooper-Boles amendment). Expect GBP to stay supported today (May to present her new plans to Cabinet and parliament later) and tomorrow, when the Cooper-Letwin amendment could be approved. While one could make the case for some large cable gains through major resistance at 1.3250/3350 if a path to a long delay becomes clear, we feel it's too early to position for that. Look out for Bank of England speakers at 11CET today.

## **HUF: Too early for the NBH to move today**

As [Peter Virovacz wrote last week](#), we prefer the National Bank of Hungary to wait until the 26 March meeting to start its policy normalisation, rather than starting the process today. That said, we remain positive on the Hungarian forint and as long as no momentum emerges on US auto tariffs, we prefer EUR/HUF heading down to 316.75.

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