

GBP: Seven degrees of separation

The departure of seven Labour rebels to potentially form a new party shouldn't have a material impact on Brexit voting metrics. But if big names were to join them, sterling could get more of a boost



⬆️ USD: DXY consolidates near the highs

The US dollar index is consolidating barely 1% away from the highs seen late last year, which serves as a reminder that a Fed pause alone isn't enough to engineer a broad dollar bear trend. Instead, some attractive stories are required overseas, particularly in G3 - and they're not present yet. Europe looks like it requires weaker currencies right now (see the European Central Bank mood below) and the Bank of Japan does not seem ready to welcome a stronger yen just yet. Of course if the US were to show clearer signs of a slowdown, the currency war would be back on, with presumably Washington putting a weaker dollar back on the agenda. For the time being, we favour the dollar against the G3 and see scope for a tick up in US yields to drive USD/JPY, in particular, higher. For today, we'll hear from the Federal Reserve's Loretta Mester on monetary policy. Fed rates are priced flat for six months and then a 5 basis point cut within a year. Unless Mester surprises by emphasising soft December data and somehow supporting rate cut notions, the dollar should stay supported.

➡️ EUR: Will we see the first tentative signs of a bottoming out?

In Europe, the focus turns to the German February ZEW index. While the market expects another

decline, our economists look for the first tentative signs of a bottoming out after the recent stretch of disappointing macro data. This suggests limited downside to EUR/USD though any material euro strength is unlikely, particularly after recent ECB officials' comments (such as Peter Praet yesterday) about the potential extension of forward guidance in response to the worsening economic outlook. EUR/USD limited to the 1.1340 level.

➔ GBP: Labour splinters, little direct impact on Brexit

The departure of seven Labour rebels to potentially form a new party shouldn't have a material impact on Brexit voting metrics – since they were already defying their leadership in parliament. Were big names, such as Deputy Labour Leader Tom Watson to join them, sterling could get more of a boost in that it could: a) see Labour take a less pro-Brexit line and b) splinter the Labour vote further. Better UK wage data could see cable at best press 1.30, but gains should be temporary.

➔ PLN: Rising wages, but limited impact on the NBP and the zloty

Our economists look for an increase in wages from 6.1% to 7.3% year-on-year in January as (a) the December reading was reduced due to a smaller contribution from the mining sector (b) the minimal wage hike in January contributing approximately 0.4% to the headline figure. Still, with the CPI being materially below the National Bank of Poland's target, the domestic economy slowing down and the external uncertainty, the impact on the NBP reaction function or the zloty should be limited. EUR/PLN to hover around the 4.3300 level today.

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