GBP: Sticking to the script?

Ahead of key Brexit votes this week, sterling is looking fragile

GBP: Sticking to the script?

The script this week for sterling is: (i) Prime Minister Theresa May's Withdrawal Agreement is rejected by parliament tomorrow, (ii) parliament rejects any prospect of a No Deal (Wednesday) and iii) parliament votes in favour of a short Article 50 delay (e.g. until June) on Thursday. None of that looks especially positive for the pound and indeed a big defeat for May tomorrow could lead to renewed speculation that her position is untenable. Wednesday will also see the Chancellor deliver his Spring Statement. It looks too early for big fiscal give-aways, but lower debt servicing costs should be helpful. For the near term, we'd say GBP remains fragile, e.g. cable to 1.2780.

USD: Looking for the bounce-back in activity data

We expect the dollar to remain bid against the low yielders this week and risk assets to reclaim some of their recent losses. In the US, our team is looking for a bounce back in retail sales (January) and Industrial Production (February). This should question what's currently priced into the US money market curve, where the market currently sees a 20 basis point decline in the Fed Funds rate by end 2020. That better US activity data this week, plus February core CPI continuing at 2.2% year-on-year should see US rates firm and probably send the heavily G7-weighted US dollar index through strong resistance in the 97.70 area. Our preference here is that USD/JPY can climb back to the 112.20 area through the week. Better US activity data should also downplay fears (apparently exacerbated by the European Central Bank's slashing of growth forecasts) of a sharper global slowdown and encourage a return to the emerging market high yielders. The Federal Reserve seems pretty clear it wants to allow the economy a free run for a while and we think high-yield emerging markets FX can cope with some modest steepening in US curves.

EUR: German IP data disappoints

We think investors, underweight European assets, are looking for recovery stories but are struggling to find many. Despite a revision to December IP data, the German January figure disappointed again (-0.8% month-on-month) and is keeping the eurozone re-rating story on the backburner. However, very low levels of traded and realised EUR/USD volatility suggests there is limited appetite currently to position for range break-outs and thus a sustained move in EUR/USD below 1.1200 may be difficult to see this week.

TRY: Turkey goes into recession

4Q18 GDP data confirmed that Turkey has gone into a technical recession. This had been expected after the strong monetary and fiscal tightening seen last year, but a renewed demand for yield this week could see USD/TRY back to 5.35.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com