

## GBP: Risk premium still too low

Investors are still too complacent about the potential downside for sterling ahead of next week's Brexit vote. Meanwhile, the arrest of Huawei's CFO in Canada raises questions about the durability of the US-China trade truce



Source: iStockphoto

### USD: More dollar strength

The pressure on risk assets continues, with the arrest of the Huawei's Chief Financial Officer in Canada (for extradition to the US) adding further question marks about the credibility and the durability of the short-term trade war truce struck between the US and China over the weekend. With the US 10-year Treasury yield below 2.90% and the ongoing flattening of the UST curve, the US dollar is set to benefit. Given the nature of the sell-off, Asia-linked G10 currencies (Australian dollar and New Zealand dollar) are set to underperform the rest of the G10 FX space. In the emerging market space, Asian FX is set to lag, closely followed by Latin America, as the associated decline in risk appetite is also spilling into commodity prices. The focus today turns to the start of the OPEC meeting, though hopes for more meaningful cuts in production (which would provide a floor to oil prices) have been fading in recent days. As per [Crude oil: Crunch time for OPEC+](#), we believe that anything below a 1MMbbls/d cut will be viewed as bearish by the market.

## ⬇️ GBP: Still not enough risk premium priced in

Highly divisive UK politics and a veil of uncertainty about the Brexit outcome should continue to weigh on the pound. We note that a fairly limited short-term risk premium is priced into the EUR/GBP (currently modestly above 1% vs 3-4% in late August this year – see [GBP: Rocked by Brexit](#)). This suggests more downside to GBP stemming from next week's (likely unsuccessful) vote on the Brexit deal. EUR/GBP to move above 0.9000 in coming days.

## ⬇️ EUR: Upside remains fairly limited

Upside to EUR/USD is fairly limited and we look for the cross to test 1.1300 as the wider risk-off environment and the flattening UST yield curve are both positive for the US dollar. In the Czech Republic, October retail sales, excluding cars, should be solidly above the average year-to-date growth rate, supported partially by the calendar bias. But any impact on the overbought Czech koruna should be limited. In Serbia, we expect the central bank to stay on hold, as the uptick in October inflation was minor and core CPI remains muted at 1.1%. Our economists look for a neutral communique pointing to an evenly distributed balance of risks, suggesting limited spillover into the Serbian dinar.

## ➡️ RUB: Above-consensus CPI to support rouble

In Russia, November CPI should accelerate further (ING 4.0%, consensus 3.8%). The steady -0.15% week-on-week inflation seen in the last three weeks suggests that even our above-consensus expectation of 3.9-4.0% year-on-year for November could be exceeded, as overall local prices are catching up with the rouble depreciation of 12-13% year-to-date and the recent pick up in gasoline prices. This would, in our view, increase the likelihood of a rate hike later this month, in turn supporting the rouble.

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