

GBP: Stuck between Brexit and the data

Tentative signs of progress on Brexit are helping the pound but tomorrow's services data should limit the upside



➔ USD: Still very high bar for the dollar to weaken against low yielders

While stock markets got a boost from speculation that a US-China trade deal may end tariffs on Chinese goods, the risk-on spillover into the FX market has been rather muted. This is because (a) at this point we need a tangible agreement rather than speculation to prompt a larger risk rally in the FX space; (b) the eventual resolution of the trade dispute should give the Federal Reserve room to hike interest rates in 3Q this year (which is not priced in). The odds of a hike should get a boost on Friday from the US labour market report, where we look for [solid February wage growth](#) of 3.5% year-over-year. This suggests that even if the risk environment continues to improve, the US dollar should stay supported against low yielders such as the euro and Japanese yen. Particularly for USD/JPY, we see more upside ahead given the mix of rising stock markets and scope for higher US Treasury yields.

➔ EUR: Cautious ECB unlikely to help EUR much

The key event for the euro this week is the European Central Bank meeting on Thursday. As per our [ECB Preview](#), we look for a downward revision to the GDP forecast (following the poor eurozone data), but the inflation forecast should remain unchanged. The main focus will be on any forward guidance on the central bank's next steps. Here, the Governing Council will likely ask the relevant committees to look into options on how to deal with liquidity bottlenecks (i.e. the new round of targeted longer-term refinancing operations) and bank profitability. The key goal for the ECB at this point is to avoid unintentional tightening of monetary conditions. This, in turn, suggests a cautious tone which is unlikely to be much help for the euro this week.

⬆️ GBP: Support from Brexit news today, soft PMI tomorrow to tame GBP upside

Despite news over the weekend that some members of the European Research Group are willing to back Prime Minister Theresa May's deal (if three tests are met) we still see it as more likely that the PM's deal won't get passed in Parliament next week and that Article 50 will need to be extended to allow for further negotiations. As for the pound, the rising odds of May's deal succeeding are helping (although we still think the probability is below 50%), but the likely soft UK Services PMIs tomorrow should limit the near-term upside.

➔ KRW: Declining CPI to further underscore market's dovish pricing

South Korea headline and core February CPI should decline, underscoring our economists' view that the Bank of Korea's 25 basis point rate hike last November wasn't at all needed. Indeed, the weak domestic economy, trade uncertainty and dovish G3 central banks' policy puts the BoK next in line among Asian central banks to cut rates later this year. With the market already pricing a partial cut over the one-year time horizon, today's fall in CPI may not be overly detrimental for the won, with the currency price action being mainly determined by risk sentiment.