# GBP: Temporary reduction in risk premia

With the UK Parliament suspended for the next five weeks, sterling may enjoy some more calm this week. But we expect pressure to resume

## USD: Only short-lived respite from the Chinese tariff exemptions

While the decision from the Chinese government to exempt some US goods from tariffs may help risk sentiment today, we don't see it as a game changer for the trade war outlook. We see these latest measures as tools to help to ease the pressure on the economy but expect the Chinese government's approach to the trade talks with the US to remain the same. Hence we don't look for a resolution any time soon and in fact expect a further escalation of the US-China trade dispute in coming months, with more tariffs coming. This in turn means that after the current short-lived period of stability, emerging market FX should come under pressure again while the trade-weighted dollar should rise.

## EUR: waiting for the ECB

EUR/USD should remain fairly range-bound today as investors are unlikely to enter into meaningful directional bets ahead of the crucial European Central Bank meeting tomorrow. Focus is also on Riksbank Governor Stefan Ingves's speech today following the disappointing August CPI yesterday. We target EUR/SEK 11.00 this year.

## GBP: Reduction in risk premia, but should not last for long

With the short squeeze in GBP under way, we have observed a general reduction in various GBP risk premia measures over the past week. As per our Sterling risk premium tracker, we estimate c.1.5% risk premia is priced into EUR/GBP on a short-term basis (vs the summer average of 3% and the risk premium peak of 5.3% last month). Within the options market, the main stress period for GBP is currently priced in for late November / early December, when the early elections are likely to take place. This is evident in the shape of the EUR/GBP implied volatility curve, where the peak in volatility has shifted further down the curve from two months to the three-month tenor. With the UK Parliament suspended for the next five weeks, GBP may enjoy some more calm today / this week, but we expect pressure on sterling to return once a general election is announced.

## PLN: No change in rates, bigger focus on the FX mortgage story

No change in interest rates is expected from the National Bank of Poland today. Despite the risk of CPI temporarily overshooting the NBP's inflation target upper band (CPI above 3.5% YoY) in 1Q20, our economists expect the guidance on interest rates to remain unchanged. Rather the focus should be on the European Court of Justice's ruling regarding FX mortgage loans. Previously, several MPC members communicated the need to lower capital requirements. Here, the chairman's opinion should be crucial for the final recommendations to the Committee of Financial Stability. The FX mortgage story is the key risk for the Polish zloty and we look for EUR/PLN to re-test the 4.40 level in coming months if local banks start to pre-emptively hedge their FX exposure.