Sterling to weaken into 3Q

We expect the pound to weaken into the third quarter and have revised our EUR/GBP forecast higher. Here's why

USD: The dollar to continue rising against the yen

Another fairly quiet day on the US data front, with the April University of Michigan Sentiment Index to remain broadly flat. This suggests muted price action in the dollar. Fed Chair Jerome Powell's reiteration of the central bank's independence (following comments last week by President Trump that the Fed should cut interest rates) in a meeting with Democratic lawmakers also suggests that any imminent cuts are off the table, in turn, keeping the dollar's support in place. The mix of higher oil prices, a stable risk environment and anchored US rates points to further upside to USD/JPY, with the cross likely re-testing the 112.00 resistance level soon.

EUR: Another uninspiring set of eurozone data

In Europe, the focus is on eurozone industrial production data for February. While January industrial production was stronger-than-expected, it seems unlikely that this positive start to the year has continued into February. Our economists look for a softer number today, which should in turn constrain EUR/USD upside and keep the cross below 1.1300. Soft eurozone industrial production should further justify the European Central Bank's cautious stance, suggesting that the probability of any imminent policy normalisation is very low.

GBP: Sterling to weaken into 3Q

We have revised our EUR/GBP forecast higher and expect the cross to test the 0.88 level in the thrd quarter in response to the likely negative headline news stemming from a possible Conservative leadership battle and the subsequent market concerns about a eurosceptic Prime Minister.
A partial reduction in GBP short positioning (and some build up of new speculative longs) since the beginning of the year could also add to the reversal, as GBP positioning is no longer meaningfully skewed one way. Moreover, with the six-month Article 50 extension period being too short for the Bank of England to raise interest rates, one potential supportive factor for sterling has now disappeared. This should translate into GBP/USD reaching the 1.27 level in 3Q.

MXN: Well positioned among the EM FX

USD/MXN continues to test the 18.80 support level, benefiting from a mix of rising oil prices, a stable risk environment as well as attractive carry. At this point, we see the Mexican peso as one of the most attractive emerging market currencies given the above factors as well as the upcoming easing Banxico cycle (to start no later than in 3Q19), which should be supportive for bond inflows and by extension for the peso.