

GBP: When Plan B is a rerun of Plan A

Theresa May's Plan B looks like a carbon copy of Plan A, and it's likely to be rejected-again. But the likely next steps on Brexit are shielding sterling



British Prime Minister,
Theresa May

⬆️ USD: Dollar hasn't peaked yet

Asian markets opened lower overnight as the optimism about US-China trade negotiations faded somewhat while the IMF's downward revision to its global growth estimate highlighted recent market concerns (although the latter is not really news). We don't expect sentiment to change today, but a lack of new bad news suggests the downside to risk assets should be limited and contained. One key implication of the current fragile risk environment is broad-based support for the US dollar, which in our view has not peaked yet ([as per our 2019 FX Outlook](#)).

⬇️ EUR: Softness to continue

We look for a modest decline in the German ZEW index today, in line with the softening trend of other German data. This, coupled with the build-up to the ECB meeting on Thursday (and the risk of a modestly dovish bias given the softness in eurozone data vs the rather optimistic ECB staff forecast in December), suggests continuing softness in EUR/USD. We target 1.12 within a one

month time horizon.

➔ **GBP: When Plan B is a carbon copy of Plan A**

Although Prime Minister Theresa May's attempt to push through with Plan B (which appears to be a mere facelift to Plan A) doesn't appear to have high odds of succeeding, the likely next steps (after the likely rejection of such a plan) are shielding sterling. These are non-negligible odds of a second referendum (30% probability in our view – Labour leader Jeremy Corbyn yesterday indirectly did not rule out another people's vote) or a vastly different plan including a customs union (also around 30% probability). Of course, both would be preceded by the extension of Article 50. The subsequent 60% overall probability of two market-friendly results is currently helping sterling, preventing it from reversing its recent gains. Yet we note that with the no-deal option still on the table, the probability-weighted outcome for EUR/GBP is 0.89 based on our estimate (not far from current levels). This is also in line with our latest estimate of EUR/GBP short-term financial fair value (also at 0.89). This suggests limited scope for further imminent GBP gains unless more progress to market-friendly options is made.

➔ **PLN: Stable retail sales don't make the zloty attractive**

In Poland, our economists expect stable retail sales – close to 8% year-on-year. According to official GUS surveys, the propensity of consumers to make major purchases has not diminished so far, despite the slowdown in the eurozone. The effect on the Polish zloty should be limited as the NBP's firm hike-averse bias remains unchanged, while in the central and eastern European relative value space, the forint offers meaningfully larger upside vs the zloty as the NBH approaches the start of Bubor normalisation. The resulting attractiveness of short PLN/HUF positions should also limit PLN upside.

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