

## GBP: Yet another crunch time

Our base case is still for a market-friendly resolution to Brexit, which should push sterling up to \$1.40 by year-end



Source: Shutterstock

### ➔ USD: Justified stabilisation in risk assets

Markets stabilised overnight after a dip in risk assets yesterday. As per yesterday's FX daily, although China trade data was soft, the fact that (a) we have seen improved rhetoric in the US-China trade negotiations and (b) the Fed is taking a more cautious stance, means that the soft (and past) data points may be given the benefit of the doubt, at least in terms of reaction in FX markets (with the likes of the Australian dollar already converging towards last week's highs). Today, we expect the stream of Fed speakers to reiterate Chairman Jay Powell's caution on further tightening but also optimism on growth. The US government shutdown may also be cited as a reason for the Fed's pause.

### ⬇ EUR: The first preview of potential German technical recession

The first estimate of annual German 2018 GDP growth is out this morning. This also includes a first 'guesstimate' for growth in the fourth quarter. Latest data releases have dented hopes for a quick rebound of the German economy, with a non-negligible risk of a technical recession. Should the latter materialise, this should be a modest negative for EUR/USD, with the cross testing the 1.1450 level.

## **GBP: No short-term risk premium priced into GBP ahead of the vote**

We expect Prime Minister Theresa May to lose the meaningful vote today with the main question being the extent of the loss. We see a reasonable likelihood that the deal is voted down by 150 votes or more. [As per GBP: The bumpy ride to the eventual recovery](#), the lack of short-term risk premium priced into sterling and the potential disappointment about imminent Article 50 extension (expectations of which have built since last Friday) may translate into weaker GBP this week. Beyond the near-term price action, our base case of a market-friendly resolution by the year-end suggests a stronger sterling by end 2019 (GBP/USD at 1.40). While GBP is ultra-cheap (cheapest G10 currency), the valuation gap is unlikely to close fully as the damage to the economy has already been done.

## **HUF: Another drop in CPI**

After the sharp fall in Hungary CPI in November, our economists are looking for yet another deceleration to 2.7% in December largely due to the significant decrease in fuel prices. Still, core inflation should increase 2.8% year-on-year, mainly on the back of services. While we expect the central bank to start normalising Bubor this year, today's inflation data should tame any expectations for urgent policy normalisation, particularly in the context of the recent well-behaved currency price action (with EUR/HUF meaningfully below its highs of mid-2018). The effect on EUR/HUF should be largely neutral as another drop in CPI and as well as the subsequently unchanged wait-and-see NBH stance are expected by the market.