

Sterling under pressure

The pound remains under pressure from Brexit uncertainty and we don't see that changing any time soon



Theresa May, UK Prime Minister

Source: Shutterstock

📉 GBP: Under pressure

A UK leadership challenge (note that the needed 48 letters from Conservative MPs are reported still not to be in place) and potential further resignations from ministers (such as Michael Gove who reportedly turned down the offer to be the next Brexit secretary) are now the main near-term risks to sterling. Importantly, even if the leadership challenge is unsuccessful, the key factor for sterling's prospects over the coming months will be the eventual parliament vote on the proposed Brexit deal (which in its current form is unlikely to be accepted, in our view). With considerable uncertainty about the outcome (given the fiercely divided Conservative party and the signal from the DUP not to vote for the proposal) the prospects for an imminent change in sterling's fortunes are rather lower. As noted in [GBP: Rocked by Brexit resignations](#), we estimate that a very limited short-term risk premium is currently priced in EUR/GBP (partly because of GBP gains in previous weeks in anticipation of an EU-UK agreement on the Brexit deal), suggesting more downside sterling potential (around 3-4%, to match the local peak of the GBP risk premia in late August 2018) should there be another stream of bad news.

➡ USD: Little respite on trade war prospects

The US dollar has been trading marginally on the soft side overnight (mainly against G10 crosses)

despite US Commerce Secretary Ross's comments that the US still plans to raise tariffs on China at the start of 2019 and the anticipated meeting of Presidents Trump and Xi later this month at best agreeing on the framework for further talks. This is in line with our view that the trade war overhang is to remain with us next year. On the data front, we look for an increase in US October industrial production following the strong ISM readings.

➔ **EUR: Staying below the 1.1400 level**

With a lack of meaningful catalysts for euro upside, we expect EUR/USD to remain below 1.1400 today. Speeches from both ECB President Mario Draghi and Bundesbank President Jens Weidmann today should not have much effect on the euro.

➔ **RON: No change in Fitch credit rating**

Our economists expect today's rating announcement from Fitch to be a non-event as the rating agency seems less concerned about the outlook relative to the other two major agencies, especially S&P. With CPI inflation still being well above the upper tolerance band, we expect the National Bank of Romania to stick to the current EUR/RON range for now and the Romanian leu to continue outperforming its central and eastern European peers in times of stress (as was the case this year).