FX daily: The uncertainty is creeping back for the pound

We see prospects of an early election as negative for GBP given that it would tame optimism about the withdrawal agreement being ratified – the key driver of GBP gains this month

USD: The fading downtrend

The USD downtrend has started to fade as the market is unwilling to price in a more protracted Federal Reserve easing cycle (we also don't expect the Fed to pre-commit to large cuts) while the latest comments from Vice President Mike Pence on China's role in Hong Kong increased caution related to the prospects of the US-China trade deal.

With the positive impact on risk sentiment from hopes for an imminent and orderly Brexit resolution fading, the dollar losses should stall too.

EUR: Missing reasons to be cheerful

After the fairly uneventful ECB meeting yesterday, all eyes are on the German October IFO. With Eurozone October PMIs showing that the economy is still close to stagnation, we don't expect today's German data to show a better picture.

In Sweden, after the surprising hawkish Riksbank bias yesterday, the focus turns to retail sales. If we get another uninspiring activity data point, this will confirm the "one and done" nature of the signalled rate hike and should translate into some modest SEK weakness.

EUR and ECB: Missings reasons to be cheerful

GBP: The uncertainty is creeping back into sterling

Another attempt by Boris Johnson to call for an early election may again struggle to reach the required majority in Parliament, while it remains uncertain whether the EU will decide on the length of any extension ahead of Monday's vote (on an election). We see prospects of an early election as negative for GBP given that it would tame optimism about the withdrawal agreement being reached – the key driver of GBP gains this month – and reintroduce uncertainty into sterling. However, given that the odds of a hard Brexit have decreased (in the case of a Conservative majority scenario after the election) compared to the state of affairs three weeks ago, we see GBP downside as more limited now too.

We now see EUR/GBP 0.90 as the possible peak for the pair (vs 0.95 previously) if Parliament fails to ratify the deal and we head into early elections – with the accompanying pre-election non-market friendly rhetoric.

RUB: 25 or 50bp today from the CBR?

In a keenly awaited outcome, the CBR announces its policy decision today. After some very dovish remarks from CBR governor Nabiullina, the market is now torn between a 25bp and 50bp cut to the 7.00% policy rate. As Dmitry Dolgin highlights in his preview, our bias is towards 25bp, but think the bigger story will be the longer term guidance over the full extent of the easing cycle.

Guiding the market towards the 6.00% should be greeted well by the local bond market and combined with seasonal support from the BoP, RUB should stay supported near the 64.00/USD area over coming weeks.