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We Are In the Endgame Now

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As the Brexit clock runs down, we are starting to see some movement. Last Thursday PM Johnson met with his Irish counterpart in what was labelled as 'constructive' discussions. This sent the British Pound (GBP) significantly higher, showing the sensitivity in the market at the moment to any slight news flow.

Aside from the UK, we review the latest from the US/China dialogue, along with risk on sentiment driving safe havens lower.

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GBP

Here we are, heading into a very big week for British politics and economy alike. Regular readers of our analysis will know the state of play, so let's review the potential spill overs of the EU summit this week.

One note on last week though was the meeting between Johnson and the Irish PM which effectively provided a catalyst for GBP to vault higher on Thursday and Friday. It traded over 4% higher against the US Dollar by the close of the week₁. Arguably we wouldn't have as much optimistic anticipation for the EU summit this week had we not had the Irish meeting last week. Fast forwarding to today, we are now in a position whereby a renewed sense of hope flows through the FX markets that there is indeed a fair chance of PM Johnson offering his amended proposals to EU leaders this week.

Option pricing (overleaf) shows large demand for GBP topside via short dated (1 week – 1 month) calls, which shows sentiment has improved. Indeed, spot movements can sometimes be clouded by flows, whereas Option pricing offers a clearer picture of positional adjustments. Our House base case remains for an extension to the negotiating process with a strong likelihood of a general election. However, as we flagged previously, this week offers 'fat tail' kurtosis on the event outcome. A deal or a no deal from the EU summit would likely see strong GBP moves.

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USD

Talks resumed on trade between the US and China last week. The US suspended a tariff increase of 5% (from 25-30%) which was due to go into effect this week₂. Whilst this can be taken as a positive, it does not mark a significant shift in sentiment between either side. The US dollar was largely unmoved following the news.

Investors now have to make the call on whether to take profit on long USD positions as we move into Q4, which have served them well year to date.

EUR

We saw a rebound in industrial production based on August data, coming in at 0.4% vs 0.3% expected₃. This being only the third monthly rise this year, shows the demise of the Eurozone economy. With the powerhouse that is Germany not able to shoulder the burden, it doesn't paint a good picture for the rest of Q4 and beyond. Therefore it is not surprising that EUR/USD trades below 1.10, with EUR/JPY below 120 too₄.

A Change in Sentiment?

GBP/USD Risk Reversals close to 5yr highs for a one month tenor, showing Brexit optimism



Reuters Bloomberg L.P

Sources:

1. GBP/USD Reuters Quote Range
2. <https://www.cnbc.com/2019/10/14/what-chinese-media-are-saying-about-the-partial-trade-deal-with-the-us.html>
3. <https://ec.europa.eu/eurostat/news/news-releases>
4. Reuters Eikon Spot Quote 15/10/19

Citi Analysts FX Forecasts

		Market data*			Forecasts		
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term
G10							
Euro	EURUSD	1.11	1.11	1.13	1.10	1.10	1.20
Japanese yen	USDJPY	108	108	106	107	104	93
British Pound	GBPUSD	1.25	1.25	1.26	1.24	1.25	1.40
Swiss Franc	USDCHF	1.00	0.99	0.97	1.00	1.01	0.96
Australian Dollar	AUDUSD	0.68	0.69	0.69	0.68	0.70	0.73
New Zealand Dollar	NZDUSD	0.63	0.64	0.64	0.63	0.64	0.66
Canadian Dollar	USDCAD	1.33	1.32	1.32	1.32	1.29	1.22
Dollar Index**	DXY	98.39	97.83	96.32	98.58	97.86	89.26
G10 Crosses							
Japanese yen	EURJPY	120	120	120	118	114	111
Swiss Franc	EURCHF	1.10	1.10	1.10	1.10	1.11	1.15
British Pound	EURGBP	0.89	0.89	0.90	0.89	0.88	0.86
Swedish Krona	EURSEK	10.73	10.74	10.78	10.65	10.55	10.00
Norwegian Krone	EURNOK	9.90	9.95	10.13	9.80	9.60	9.00
Norwegian Krone	NOKSEK	1.08	1.08	1.06	1.09	1.10	1.11
Australian Dollar	AUDNZD	1.08	1.08	1.08	1.08	1.09	1.11
Australian Dollar	AUDJPY	74	74	73	73	73	68
Asia							
Chinese Renminbi	USDCNY	7.09	7.09	7.15	7.15	7.35	6.50
Hong Kong Dollar	USDHKD	7.83	7.83	7.83	7.83	7.84	7.80
Indonesian Rupiah	USDIDR	14067	14259	14815	14400	14100	14700
Indian Rupee	USDINR	71.2	72.2	74.6	72.5	70.5	73.0
Korean Won	USDKRW	1191	1188	1176	1215	1230	1180
Malaysian Ringgit	USDMYR	4.19	4.19	4.23	4.21	4.15	3.80
Philippine Peso	USDPHP	52.2	52.4	53.2	52.5	52.3	52.0
Singapore Dollar	USDSGD	1.37	1.37	1.37	1.40	1.39	1.30
Thai Baht	USDTHB	30.5	30.5	30.5	30.7	30.4	31.0
Taiwan Dollar	USDTWD	31.0	30.7	30.2	31.2	31.4	31.0
EMEA							
Czech Koruna	EURCZK	25.9	26.1	26.5	26.0	25.8	25.2
Hungarian Forint	EURHUF	333	334	335	330	333	335
Polish Zloty	EURPLN	4.34	4.36	4.43	4.40	4.37	4.25
Israeli Shekel	USDILS	3.54	3.52	3.46	3.53	3.51	3.48
Russian Ruble	USDRUB	64.2	65.0	67.2	66.0	68.0	70.0
Russian Ruble Basket		67.3	68.3	71.3	69.0	71.1	76.3
Turkish Lira	USDTRY	5.67	5.85	6.37	5.80	6.90	7.25
South African Rand	USDZAR	14.63	14.80	15.31	15.50	15.45	15.00
LATAM							
Brazilian Real	USDBRL	4.08	4.10	4.18	4.05	3.96	3.85
Chilean Peso	USDCLP	714	714	709	724	713	700.00
Mexican Peso	USDMXN	19.3	19.6	20.4	19.90	20.20	20.45
Colombian Peso	USDCOP	3385	3402	3468	3420	3450	3300

* market data including spot as of 1:23 PM London time on 18-Sep-2019

** The DXY forecasts are implied from the forecasts of the constituent crosses. *** Returns are relative to forwards

*The new update of the above Citi FX forecast is expected to be published around **21st October 2019**. **Past performance is no guarantee of future results**. Real results may vary. All forecasts are expressions of opinion, are not a guarantee of future results, are subject to change without notice and may not meet our expectations due to a variety of economic, market and other factors

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