

Brexit concerns, inflation keep pound below \$1.29

MARKET NEWS FEBRUARY 13, 2019 / 10:16 AM



LONDON, Feb 13 (Reuters) - Sterling held below the \$1.29 line on Wednesday as inflation, which fell to a two-year low in January, failed to shake the currency out of its recent trading ranges with markets firmly focused on the progress of Brexit negotiations.

Currency markets have shifted their expectations on Brexit to the end of March which is when Britain is slated to leave the European Union with currency derivatives indicating a pick up in market volatility then.

British lawmakers will face a stark choice between Prime Minister Theresa May's Brexit deal or a long extension to the March 29 deadline for leaving the bloc, the UK's chief Brexit negotiator was overheard saying in a Brussels bar.

The pound was flat at \$1.2887, broadly trading in the middle of the range of a pre-Brexit vote referendum high of the \$1.5025 to the \$1.1483 range.

Against the euro, the pound was a shade weaker at 87.87 pence.

“Unsurprisingly, the reaction from the markets to these rumours is nonexistent; the process has been dragging on for too long, with many ups and downs and investors appear to have developed a degree of immunity to political intrigue,” said Ricardo Evangelista, senior analyst at ActivTrades in London.

With six weeks to go before Brexit, markets are increasingly focused on political developments rather than economic data.

In a sign of how inured markets have become to Brexit headlines and weak data, implied volatility on the pound or expected swings in the British currency has fallen to more than a three-month low of nearly 10 vol compared to 14 vol in early December.

Inflation dipping below the Bank of England's target in January, offering some relief to households ahead of Brexit.

British government bond futures gained modestly after January inflation slowed more than expected, touching a session high of 124.11, 14 ticks up on the day. Ten-year gilt yields dropped 2 basis points on the day to a two-day low of 1.171 percent.

Market implied expectations of a quarter percentage point rate hike by the Bank of England have shrunk to 33 percent before the end of the year compared to nearly half last month. (Reporting by Saikat Chatterjee, David Milliken and Sujata Rao; Editing by Alexandra Hudson)

