

DOVISH FED SQUAWKS LENDS EURUSD WINGS.

MORNING REPORT: 10TH JANUARY 2019

GBP

The government's defeat in the Commons yesterday further reduces the possibility of a no-deal Brexit, as MP's force May to publish a plan B response within 3 days if her draft Withdrawal bill is rejected in next week's 'meaningful vote'. This compounds amendments to the finance bill earlier in the week that limited the Treasury's power in the event of a no-deal scenario playing out without Parliament's approval. With a weaker dollar across the board yesterday, marginally less risk of a no-deal Brexit allowed sterling to make further inroads. Materialistically, however, little has changed since the Christmas period. According to a transcript of opposition leader Jeremy Corbyn's speech, the Labour leader will call for a general election next week if May's draft deal is shot down. Meanwhile, controversy over points of order regarding Brexit legislation has seen shenanigans continue in the House of Commons.

EUR

The euro had a bright day yesterday, as the weakness of the dollar provided a percentage point of gains to the single currency, which sat at levels not seen since last October. The 11-week high on the cross came after dovish tones from US monetary authorities, despite domestic data still offers no support to the prospects of the Eurozone. French decline in consumer confidence along with German decrease in monthly exports and imports has dampened sentiment, while the French Industrial Production of November unexpectedly also shrank by 1.3%. This is a negative surprise akin to what we saw earlier this week in the equivalent German figures, signalling the manufacturing sector in the Eurozone may well prove to be a drag on Q4 economic growth. The continuing fall in the European unemployment rate, on the other hand, might play positively but probably not in a wide extent given the resilience of inflation measures. Today the release of the December meeting minutes of the European Central Bank could play as the most significant event in

the area, although the pair could be mainly dominated by the dollar moves.

USD

The US dollar bottomed the G10 currency board yesterday as a new wave of dovish tones from Federal Reserve officials hit the market when their meeting minutes from December were released. Early on in the US session, comments from Raphael Bostic, the Atlanta Federal Reserve representative, shook the market and toppled the US dollar. Bostic deems the monetary policy comfortable at the current neutral level, but showed that he was open to rate cuts if downside risks materialise. The release of the December meeting minutes exacerbated the greenback's woes, showing a general view of patience as the extent and timing of future hikes seem less clear. Today could see further volatility as the markets await Jerome Powell's address in Washington at 17:00 GMT.

CAD

The Bank of Canada rate announcement coincided with a bout of dollar strength, but as the rate announcement contained predominantly dovish news, the loonie quickly sold off against USD after all, wiping out earlier gains. The BoC mostly stressed external headwinds, with oil prices being 25% lower than they had as their October Monetary Policy Report base case, while they also noticed the ongoing US-China trade war is putting a brake on global growth and commodity demand. Apart from the expected downgrade in economic forecasts for the domestic economy in 2019, positivity actually prevailed with BoC seeing an above average growth of 2.1% for 2020. For us this was one of the signs of the hawkish bias of the BoC, which is waiting to hike based on the solid performance of the domestic economy as soon as global risks retreat somewhat.