BACK TO SQUARE ONE FOR MAY

MORNING REPORT: 13TH MARCH 2019

GBP

Sterling proved highly sensitive to Brexit headlines yesterday and delivered the large bout of volatility that was anticipated around the meaningful vote. It started after May struck concessions from the EU which sent the pound significantly higher against both the dollar and euro, only for Attorney General, Geoffrey Cox, to state that the risks of the UK being trapped in the backstop remains unchanged. With Cox's legal advice proving insufficient for May's deal to cross the line, the DUP started to voice their stance on voting down the deal later that evening. The DUP arguably carried significantly more votes last night than the 10 MPs within their party and showed the sign for investors to begin selling sterling. The turn in investor sentiment was confirmed as May later lost the meaningful vote by a majority of 149 votes. Back to square one for both the pound and Brexit negotiations. Parliament today sees a vote on whether the UK exits the EU with no-deal in place or not on March 29th at 19:00 GMT. Prior to this vote, Philip Hammond, the Chancellor of the Exchequer, will give the UK's Spring Statement at 12:30 GMT but has denied that this will be a fiscal event. The plans for government spending remain on hold as Hammond builds a Brexit war chest in case the worst scenario plays out. This morning at 07:00 GMT, the government released its plans for a no-deal Brexit which will see around 87% of goods trade without tariffs temporarily for 12-months to avoid price spikes for the consumer. The remaining 13% subject to trade tariffs include goods such as beef, cars and dairy products.

EUR

Surprisingly the euro became somewhat of a contrarian coinage when it comes to Brexit, as the British pound suffered almost as much as Theresa May after Brexit gridlocked again, while the euro made its way to the top of the G10 currency board. No first tier data came out yesterday to explain this move, while it's inconsistent with the market consensus that Brexit uncertainty is also hurtful for the Eurozone economy. The answer, for now, is that investors may perceive the current multi-month lows on euro as a buying opportunity, as a lot of negative news is already priced in. This would explain why the currency has stabilised since last week's determinedly dovish European Central Bank meeting, though admittedly this reading may quickly be out of the window if we see fresh bouts of euro weakness.

USD

The dollar continued to post losses against the G10 currency board yesterday in a mild risk-on move. Notably, the dollar only fared better than the Japanese yen and a Brexit riddled pound, while EM currencies traded mixed against the greenback. February's Consumer Price Index may have provided little support for the falling dollar as the core reading surprised marginally to the downside at 0.1% MoM. The five-month streak of 0.2% core inflation gains came to an abrupt halt in February mainly due to a 0.7% fall in used car prices and a 1.0% drop in prescription drug prices. Yesterday's release doesn't come as welcome news to the Fed and may see them locked in their neutral stance for longer than expected. Core inflation levels look range bound for the first half of the year around the 2.1-2.2% level. Today's release of the Producer Price Index could shed more light on the state of the US economy and the future of inflationary pressures. Meanwhile, Durable Goods orders are also released at 12:30 GMT.

CAD

Crude oil prices continued to stretch towards the 2019 high yesterday which prompted the loonie to made hay while the sun shines against a weakening US dollar. Yesterday marked the third straight day in which the Canadian dollar reclaimed ground from the greenback after last week's 2% rout. Today has no domestic Canadian data, though the 14:30 GMT US Crude Oil inventories may still set the loonie in motion.