

# Bank of England set to round off a busy 24 hours for G10 central banks

16th June 2022

## GBP

Price action in GBPUSD was largely driven by the dollar leg in yesterday's session as the combination of valuation and a retracement in the broad dollar sent the pound 1.5% higher on the day. Today, however, focus shifts back to domestic factors for sterling traders as the Bank of England is set to announce its latest policy decision at 12:00 BST. Consensus is firm around a 25bp hike from the Old Lady, which would bring Bank Rate to 1.25%, meaning the market reaction will be determined by the Bank's forward guidance. This will take three forms: the vote split, adjustments to previous guidance around future hikes, and MPC member concerns over consumer growth conditions in the meeting minutes. On the first point, we expect a more dovish vote split of 2-5-2 for a hold-25bp-50bp, relative to the narrow consensus looking for a 6-3 split of a 25bp-50bp hike. If our base case is confirmed, this would be the clearest sign of the MPC pushing back market expectations as the deteriorating growth outlook forces them to take a more conservative path forward. Tweaks to their forward guidance and commentary around the demand outlook will likely have a more limited impact on currency markets as the Bank's preference for interest rates going forward will be delivered in a more nuanced manner. While we expect the Bank to push back on money market pricing in one way or another, the question for sterling traders will be if the traditional relationship between implied policy rates and currency markets remains. If this is the case, a dovish repricing in overnight index swaps and SONIA futures will likely prompt further GBP downside.

## EUR

Price action in the single currency was choppy yesterday after the ECB announced early in the morning that they would be conducting an emergency meeting. The news of which immediately narrowed eurozone bond spreads and both bank and Italian stocks. All of which supported the euro in the morning of the European session. At around 12:00 BST, markets sat patiently for the announcement from the central bank after it was quoted that the meeting, starting at 10:00 BST, would be ongoing for just two hours. After a lengthy hour delay, the press statement was released. However, despite speculation that this could be the unveiling of the anti-fragmentation tool that central bankers have been alluding to over the past month, the ECB communications merely outlined that the Governing Council will be asking staff to speed up their research into the possible options this tool could take. Markets swiftly reversed course on the announcement, retracing a large bulk of that morning's price action.

While German-Italian bond spreads remained narrower relative to Tuesday's close, EURUSD reversed all of its previous gains to head into the Fed meeting flat on the day. Ultimately, a softer tone in the Fed press conference boosted the euro, with the single currency notching gains of 0.26% on the day after trading in a 1.43% range. This morning, the euro has wiped out yesterday's gains and then some, as markets continue to adjust to the Fed's more hawkish pivot. With an abundance of ECB speakers scheduled between 08:45 and 13:20 BST, intraday volatility in the single currency is expected to remain high.

## USD

What a week this has been for the dollar. As it turns out, the Wall Street Journal's reports that Fed officials were prepared to hike 75bps turned out to be true. The WSJ's Nick Timiraos, given the accuracy of the rumour he reported, will now be seen by markets as the Fed's whisperer of choice in future blackouts, especially as Chair Powell put the option of a 50bp and a 75bp hike on the table for the July meeting. We expect big market moves the next time he reports an inside view that deviates from consensus, which currently sits at 75bps after the Fed's median dot for 2022 was revised up 150bp to 3.375%. At this level, the median dot this year implies a further 175bp worth of hikes, which if the Fed continues to favour front-loading, will keep them on track for another mammoth hike at the next meeting. Given how accurately markets priced in yesterday's Fed release on Monday following Timiraos' article, price action around the Fed meeting was limited. The main market moves happened ahead of the Fed decision, as participants started to retrace part of Monday's repricing. Barring a slight wobble after the immediate release of the Fed's statement and projections, this trend of a weaker dollar, lower Treasury yields and higher equities persisted as Chair Powell softened the tone of the hawkish pivot by the Federal Open Market Committee. This morning, as traders in Asia and Europe adjust to the Fed's messaging, the dollar is back on the front foot as bond yields continue to shift around. Yesterday's big performers are posting the largest declines this morning as volatility remains elevated. Given the Fed's support for higher front-end Treasury yields, we expect USD downside to remain limited in the coming weeks unless economic data starts to print soft.

## CAD

The Canadian dollar was flung during yesterday's Federal Reserve meeting before it ultimately closed the day out 0.45% higher against the dollar. This morning, however, USDCAD has largely retraced yesterday's move as traders continue to adjust to the Fed's new messaging. With US equity futures pointing to a lower cash open, higher Treasury yields across the curve, and WTI sitting below recent highs, the direction of travel looks one way for the loonie today.

### Disclaimer

This information has been prepared by Monex Europe Limited, an execution-only service provider. The material is for general information purposes only, and does not take into account your personal circumstances or objectives. Nothing in this material is, or should be considered to be, financial, investment or other advice on which reliance should be placed. No representation or warranty is given as to the accuracy or completeness of this information. No opinion given in the material constitutes a recommendation by Monex Europe Limited or the author that any particular transaction or investment strategy is suitable for any specific person. The material has not been prepared in accordance with legal requirements designed to promote the independence of investment research, it is not subject to any prohibition on dealing ahead of the dissemination of investment research and as such is considered to be a marketing communication.