BOE SLASHES UK GROWTH FORECAST TO LOWEST PACE SINCE THE FINANCIAL CRISIS

MORNING REPORT: 8TH FEBRUARY 2019

GBP

Sterling had a percentage point round trip yesterday with the Bank of England's growth forecast causing much of the volatility. Headlines flashed across Bloomberg stating that the previous November estimate of growth in 2019, measured at 1.7%, was revised down in February's release to 1.2% - this would be the lowest projected growth since the 2009 recession. The kneejerk reaction saw sterling drop 0.33% against the dollar. Then, the Bank of England Governor, Mark Carney, took to the stage to calm the market's concerns stating that the BoE growth projection was conservative due to Brexit uncertainty and that risks are tilted to the upside. Carney's positive attitude rubbed off on sterling, which then rallied some 1.09% against the US dollar in the following 2 hours. With a tight labour market and domestic inflationary pressures firming, should an orderly exit from the EU occur in March with access to the single market for trade, the BoE looks set to hike almost immediately.

EUR

The single currency held surprisingly well yesterday, despite the European Commission's new economic forecasts slashing expected growth from 1.9% to 1.3% for the bloc this year. The growth forecast for Italy tumbled deeply as it was diminished from 1.2% to 0.2% for 2019. The Italian economy is neither running nor walking, but simply limping along, which can have far-reaching consequences as the much debated 2.04% Italian budget deficit forecast is conditional on a growth rate that seems pretty fictional at the moment. This will likely stir up the discussion about the sustainability of Italian debt again around the middle of the year, a sound that will chill euro-bulls to the bone and have European bond investors flee for safety. At this moment, however, it is unclear whether the Italians heard these first warning signals as they are deeply engrossed in a diplomatic spat with France, who just recalled their Italian ambassador back to Paris after continues frictions between the two countries lately. French police allegedly have a habit of dumping illegal immigrants at the Italian side of the border, while the French are angered by Italian Prime Minister Luigi di Maio talking with yellow vest leaders. The French speak of false accusations, provocations, and using disagreements to achieve electoral gains, which was enough for them to recall their representative from Rome. France and Italy both release their December Industrial Production figures today at 7:45 GMT and 9:00 respectively, which may drown out their quibbling for at least this morning.

USD

The greenback closed off a flat trading session in the middle of the G10 currency pack, offsetting losses against GBP and JPY with gains against the remaining major currencies. Fewer jobless claims were reported relative to past weeks, although we presume this is because expectations were low due to the government shutdown last month. However, the dollar gained further strength after President Donald Trump ruled out a meeting with the Chinese President Xi Jinping before the March 1st deadline, fueling risk-off moves over concerns of a new batch of US 25% tariffs on $200bn of Chinese imports. Despite another round of conversations between US trade representative Robert Lightthizer and Chinese negotiators being scheduled next week, Donald Trump had raised expectations that no trade deal will be reached until both presidents meet. Global equity markets did not welcome this news, with particular stress in European and Asian stocks.

CAD

The loonie finally found direction yesterday, although, somewhat unfortunately maybe, the Canadian dollar went south as it lost ground against all other G10 currencies. The loonie was caught between a rock and a hard place as WTI crude oil prices softened almost 3% on the day, while President Trump fanned the trade tensions again by ruling out a meeting with Chinese President Xi Jinping. The latter hurts the outlook for the loonie as the currency is sensitive to the global risk environment in general, and to woes coming from US trade policies specifically. As the new NAFTA, or USMCA deal, still hasn't passed the Senate, some uncertainty around trade remains for Canada, while steel and aluminum tariffs currently even fall outside of the agreement. More protectionist moves by Trump are therefore quick to burst the bubble of hope these tariffs will be revoked anytime soon. Today at 13:15 GMT we have Housing Starts, swiftly followed by labour market data at 13:30 with Employment Change, Unemployment Rate and Average Hourly Earnings growth.