

DOLLAR DECLINE RESUMES AS REFLATIONARY TRADE IS DAMPENED BY LABOUR MARKET DATA

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GBP

Sterling continues to look ahead to Boris Johnson's review of lockdown conditions on Monday and the prospect of the UK economy reopening to trade on the front foot near recent highs. This morning's miss in retail sales data, driven largely by the reimposition of lockdown measures, highlighted sterling's ignorance to anything but what is in store on Monday. Headline retail sales saw volumes drop by 8.2% MoM in

January, with all sectors but non-store retailers and food stores showing a contraction in sales, while core retail sales contracted by 8.8% MoM. The UK economy is faring much better in the current lockdown than it did back in Spring 2020, which has been visible across multiple data points, but the near-term headwinds to the recovery remain strong. This isn't visible in how the pound is trading, as it takes slight losses against the euro this morning but remains near recent highs against the dollar. Today, traders will be keeping a close eye on any leaked plans from the government in order to get a hint of what is in store for Monday's announcement, while also taking note of the broad risk climate in markets.

EUR

The euro enjoyed a modest boost after yesterday's European Central Bank meeting minutes and extended gains overnight across the majority of the G10 space. The minutes stated rising yields and tightening credit standards are worth monitoring in the eurozone, but not every increase should "trigger a corresponding policy response". Meanwhile, yesterday marked the day the Recovery and Resilience fund in the EU came into effect, with EU governments banking on hundreds of billions of euros in recovery funds to revive their economies. The facility is designed to deliver €312.5bn of grants and €360bn of low interest loans over the next six years to help the EU recover from the economic downturn of the pandemic. Italy is the top beneficiary of the EU recovery fund, with the nation receiving €81.4bn in grants and €127.4bn in loans. The incoming prime minister and former head of the European Central Bank compared the task of rebuilding Italy's economy to his country's postwar rebuilding and set out the agenda for his new government in the Senate yesterday. The big question now is how the Italian government intends to invest the European funds. Governments have until end-April to submit recovery plans. On the data side, French and German manufacturing Purchasing Managers' Index figures showed a solid increase and offset the slide in the services index, limiting the dip in composite PMI to 45.2 in France and 51.3 in Germany and providing some support to the euro. For the remainder of the morning, focus will be on eurozone PMIs at 09:00 GMT.

USD

The US dollar started today's session in the red to mark an extension of yesterday's price action. US jobless claims came in as a disappointment when initial filings for unemployment benefits totalled 861K in the last week, well above consensus and higher than the peak level in the 2008 economic crisis, marking a second weekly climb. Treasury Secretary Janet Yellen told CNBC yesterday the actual jobless rate is around 10% - not January's official 6.7% - as many have stopped looking for jobs. She reiterated the need for the \$1.9tn stimulus package and said the recent strength in retail sales and stock values do not change her view. Meanwhile, bad weather is slowing inoculations in the US but vaccine supply is poised to double in the coming weeks and months according to a Bloomberg analysis. On the data calendar, Markit Purchasing Managers' Indices will be watched by markets today at 14:45 GMT while markets continue to focus on Fed speakers between 13:00 and 16:00 GMT.

CAD

After rallying substantially on Monday, the loonie has struggled to hold onto its gains this week, while it trades flat this morning despite a weaker dollar witnessed across markets. The loonie can't find support in oil markets today as WTI slides back below \$60 per barrel after production in the US is seen coming back online. The lower oil price comes in spite of yesterday's DoE data, which highlighted another drawdown in US crude inventories - this time of 3.4m barrels. Meanwhile, in Canada, public health officials updated the timeline of vaccine roll-out as the government announced that the pace of deliveries from Pfizer and Moderna will be ramping up this week. As many as 14.5m of Canada's 38m people should be inoculated by the end of June, up from 13m previously. Should vaccines from AstraZeneca, Johnson and Johnson and Novavax be approved, the tally could climb to as high as 24.5m. This is welcome news for the Canadian economy, which is just starting to resume its recovery with lockdown measures eased in Ontario and Quebec over the last week. Today, retail sales data for December will provide markets a glimpse into how the Canadian consumer is spending under tighter lockdown measures, with expectations of a 2.6% contraction expected.

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