

DOLLAR PARES BACK GAINS AFTER DONALD TRUMP REAFFIRMS TRADE AGREEMENT

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GBP

Sterling managed a sustained rally yesterday against the US dollar and the euro, and held on to most of its gains overnight. A number of disparate stories this morning have some relevance for sterling, most notably reports that Boris Johnson will announce a reduction in Britain's two-meter social distancing rule today, and announce the re-opening of venues and businesses in early July. Japan has reportedly given the UK a six-week deadline to reach a trade deal, with Tokyo's negotiator arguing that both sides need to "limit their

ambitions" to secure a timely deal - suggesting that agricultural export quotas for the UK may be hard to achieve. This morning's main data release for the UK were flash Purchasing Managers' Indices for the month of June at 09:30 BST. Better-than-expected releases from France earlier in the morning already signalled significant potential for an upside surprise in the releases, however, as a diffusion index PMIs track the change in business conditions, as opposed to their level. This means that a positive reading of 50 or above means that business conditions are improving - but in this instance, they are doing so from a very low base given very large contractions in April and May. The manufacturing PMI showed a slight improvement in economic conditions and printed just above 50 while the services and composite PMIs remained in contractionary territory at 47.0 and 47.6 respectively. The uptick in the soft survey data saw sterling fall from its highs but remain in positive territory with the Bank of England Governor Andrew Bailey will speak at the HM Treasury Women in Finance Charter's annual review at 09:45 BST.

EUR

The euro ripped higher by just under a percentage point against the dollar in the first day of the trading week and snapped its four-day losing streak after the US dollar dropped on recovery hopes. European Central Bank Chief Economist Philip Lane reiterated in a speech yesterday that the future path of the pandemic and the scale of the economic downturn remain highly uncertain, and that it is therefore appropriate for the Pandemic QE programme to be continued for at least the next 12 months. ECB Vice President Luis de Guindos added that "after this unprecedented downturn, a rebound in activity is expected in the second half of the year, support by very accommodative monetary and fiscal policies, along with a gradual resumption in global activity". The ECB members' comments may not have played a key role in the euro's price action yesterday in the context of global risk sentiment improving, but markets will keep their focus on the central bank's release of its meeting minutes on Thursday as they will likely address the ruling of the German constitutional court on the ECB's quantitative easing policy. Eurozone preliminary readings for June's Purchasing Managers' Indices were in the spotlight this morning as they show a glimpse of what the start of economic recovery may look like in the eurozone as many countries in the region have gradually lifted lockdown restrictions this month. French services, composite and manufacturing PMIs all printed above the 50.0 mark which indicates the first signs of expansion in the French economy since the pandemic struck, although the expansion is taking place from very low levels of economic activity. German PMIs printed slightly lower with a composite of 45.8, still indicating economic contraction, but a significant improvement from last month and slightly above the forecasted median. The eurozone composite PMI printed at 47.5 from 31.9 in May, while manufacturing and services printed at 46.9 and 47.3 respectively, all overshooting consensus. The euro found much support in the releases and continued rallying throughout the morning reaching a 5-day high against the dollar. With the rest of the day being empty on the eurozone data front, PMI releases from the US in the afternoon will be key in further price action of the euro.

USD

After falling against most of its G10 peers yesterday on hopes of recovery, the dollar had a bumpy ride this

morning and whipsawed back and forth following comments from US trade adviser Peter Navarro. Navarro sent stocks tumbling after telling Fox News the trade deal "is over" when asked about the agreement but later mentioned his comments were "wildly taken out of context", while US President Donald Trump confirmed in a tweet that the US-China trade deal still is "fully intact". Navarro's reassuring comments had the dollar and stock markets reverse most of its earlier reaction straight away, while crude oil prices pared their decline from a three-month high after markets recuperated from the US-China trade confusion. The trade agreement was not the only viral topic in the US overnight as Donald Trump introduced immigration restrictions to help Americans that were hit by the economic downturn of the corona crisis. He stated that "we have a moral duty to create an immigration system that protects the lives and jobs of our citizens", but the move has been criticised by several businesses as it would be damaging to the US economy. Trump said the restrictions would apply until the end of this year but may be extended if necessary. Today's focus is turned to the Purchasing Managers' Index readings that are scheduled for release at 14:45 BST, while new home sales are expected at 15:00.

CAD

The loonie followed the G10 in taking a chunk out of the dollar yesterday despite Governor Tiff Macklem's rather frank assessment of the Canadian economy. Markets likely shrugged off Macklem's comments as they reiterated the pragmatic tone already taken in both the BoC monetary policy statement and the Governor's statement to the House Finance Committee, but the outlook described was one of an elongated recovery with longer-term economic scarring. In his prepared speech, Governor Macklem reiterated that 0.25% remains the effective lower bound for policy and that monetary policy will remain stimulative until output and employment conditions have recovered. This is a diversion from the previous reasoning for balance sheet expansion which focused on market functionality in fixed income and credit markets, with the comments giving markets a nudge towards the vital statistics to form monetary policy expectations. Macklem highlighted that inflation targeting remains intact for the central bank after many economists began to question the traditional inflation statistics and price targeting regimes because spending patterns have changed dramatically due to the Covid-19 outbreak. The final important feature of the speech was that the central bank is likely to return to providing a central base case forecast in its July monetary policy report, with scenarios highlighting the risks to this baseline projection including local, but not national, lockdowns. This morning, the loonie trades relatively flat against the dollar after risk sentiment was whipsawed over mixed communications from the White House in regards to the US-China trade deal. With little in the economic calendar for the next week or so, the loonie will likely be at the mercy of global risk sentiment.

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