

# EUR DIPS BELOW 1.10 AHEAD OF ECB DECISION

12TH SEPTEMBER 2019



## GBP

Yesterday saw another quiet day in sterling's price action as it traded in a 0.4% range, however, the same cannot be said for British politics. The Edinburgh Court of Session ruled yesterday that Boris Johnson's prorogation of Parliament was unlawful, and the Prime Minister in effect willingly misled the queen into given her consent. Now while Scottish law and English law deviates somewhat, especially around constitutional matters, the speaker's office stated that the recall of Parliament is down to the government. The dispute will be put to the Supreme Court early next week where a final ruling will be made. Potentially

Parliament will be recalled prior to the Queen's speech as the British legislature reaches quite literally the constitutional crisis stage. This morning, a judgement in Belfast's Royal Courts of Justice will be made after a legal challenge was submitted against the government's handling of Brexit. This morning, ministers finally released the controversial documents outlining the worst-case scenario under a no-deal exit. The document doesn't make for pretty reading. HGV's at Dover could expect a 1.5-2.5 day delay in crossing to Calais, and excise duties could be imposed immediately raising the prices of food and fuel.

## EUR

Yesterday, the single currency dipped below a key psychological level against the US dollar. Expectations of the European Central Bank's monetary policy announcement today sent German bund yields higher and some relative weakness to the euro, notably against EM carry currencies. Today is a historic day for the euro and the ECB, which is likely to restart its quantitative easing programme while also cutting interest rates. Today's press conference at 13:30 BST, will be Mario Draghi's last as President, after an eight-year term that saw the central banker famously promise to do "whatever it takes" to preserve the euro, a verbal intervention that is widely credited as ending the worst phase of the 2012 Eurozone sovereign bond crisis. Draghi's other major achievement is the implementation of the ECB's quantitative easing programme, which faced heavy political opposition. Although the ECB is almost certain to introduce substantial easing measures today, market expectations are extremely high. Euro index swaps indicate that markets expect rates to fall to -0.65% over the next 3 years, while surveys of financial institutions show an overwhelming consensus that the ECB will restart quantitative easing to the tune of at least 30bn/year. With such high expectations, there is a danger of the ECB under-delivering and therefore tightening financial conditions and strengthening the euro. However, given today's meeting is Draghi's swan song, a large easing package "for old times' sake" remains the most likely outcome.

## USD

The greenback is generally weaker this morning, particularly against the antipodean currencies, as US-China tensions were seen as easing further over the past 24 hours. Chinese authorities yesterday released a list of products to be exempted from tariffs. Although the total value of the exemptions was small at about \$1.6 billion, they were well received at the White House and President Trump tweeted his approval. A few hours later, also on Twitter, Trump announced a delay in the implementation of certain US tariffs by a couple of weeks, as a gesture of goodwill. Although the love-fest has calmed investors and given the antipodean currencies a boost, a substantial-resolution to the trade war remains nowhere in sight and would require one side to capitulate on measures to control Chinese Intellectual property appropriation. With the ECB facing up to history this afternoon as Mario Draghi ends his tenure as President, the greenback is likely to be out of the spotlight today, but Consumer Price Index data will be released at 13:30 BST.

## CAD

The loonie reversed the last two trading day's gains yesterday as Donald Trump weighed up easing sanctions on Iran. The headlines sent crude 3.7% lower to below \$56 a barrel, putting pressure on the Canadian dollar. The double whammy of Bolton and now Iran puts pressure on oil markets as industrial sectors slow globally and demand pressures thin.