

## FED PAUSE ALL BUT PRICED IN

### MORNING REPORT: 11TH JANUARY 2019

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#### GBP

After a hectic week, yesterday saw a lull in Brexit news despite the Commons debate continuing. The development of note came from Labour leader Jeremy Corbyn's speech in Wakefield, where he stated that Labour would support an extension in Article 50 while reiterating general election threats. Sajid Javid, the Home Secretary, kicks off day 3 of the withdrawal deal debate as unnamed Tory MP's site to the BBC Political Editor that they are going to "get smashed" in the meaningful vote next week. On the data front, a Gross Domestic Product reading for November is released alongside Manufacturing and Industrial production indices at 09:30 GMT.

#### EUR

EUR reached a 12-week high against USD yesterday during the early hours of the Asian session, only to encounter a vicious reverse in faith later which eventually prompted the single currency to tumble towards the bottom end of the G10 currency ladder. The 1.3% contraction in November's French Industrial Production set the tone for the euro in the morning, although the initial market reaction was quite muted. This is unsurprising when you consider the impact of the yellow vest strikes and protests are well known. As the protests only intensified during December, next month's reading is likely going to be even worse. This, then, increases the already high likelihood of sending both the German and the French manufacturing sector into a technical recession after their Q3 slowdown. European Central Bank meeting minutes were released yesterday and revealed the concerns the monetary policy setting institution has about the global context, which they label "fragile and fluid". This is making itself felt in the Eurozone already, for example in the above mentioned German and French exporting manufacturers. Today we have the Italian Industrial Production as the main release at 9:00 GMT.

## USD

Further dovish notes were struck from Federal Reserve Chairman Powell and co yesterday evening, stemming a clawback in the dollar yesterday. The head of the US central bank said policymakers can be patient before raising rates again; a theme synonymous with the meeting minutes released Wednesday of data dependence. Vice Chairman Richard Clarida followed Powell by stating that many "crosswinds" are buffering the economy, and if they are sustained then the Fed should adjust policy. The market took these comments in their stride, but with the US shutdown threatening to break the longest on record this weekend, the possibility of the Fed cutting rates has prompted a minor selloff in the dollar this morning.

## CAD

Yesterday, the loonie traded in a tight range, closing with minor losses against the US dollar. Through the day, however, the pair tested to carve fresh lows amid prevailing bearish sentiment surrounding the dollar given recent dovish Federal Reserve statements. Despite the 'wait and see' tones of the Bank of Canada this week, markets have offset this news with worse sentiment against the US dollar. The fragile housing market in Canada, one of the BoC's main concerns, saw a 0% change in prices for new houses in November. Improving oil prices, meanwhile, could bring further strength to the loonie after trending upwards for two weeks.