FRESH HIGHS FOR STERLING AS NO-DEAL "RULED OUT"

MORNING REPORT: 14TH MARCH 2019

GBP

Sterling struck fresh highs against the dollar and euro yesterday as Theresa May's government lost another vote. This time, Parliament showed their true colours and voiced their distaste for leaving the EU without a deal in place. Crucially, amendment A proposed by Labour backbencher Yvette Cooper saw Parliament not only rule out a no-deal exit in March 29th but even ruled it out indefinitely. Although this amendment is not legally binding, the fact that an opposition party amendment passed shows that a true majority lies within Parliament for a deal of some sort to be struck. Tonight's vote completes the trio this week at an earlier time of 17:00 GMT and could possibly see increased volatility in financial markets should an extension to Article-50 not be implemented. However, this remains a tail risk for sterling, which remains on its rocky path towards an extension with one looming question hanging over its head - how long will Brexit continue for? May will warn MPs today that if an extension is not agreed upon, including the length of an extension, by the end of the next working week, a long extension to Article 50 would likely occur. This also runs the risk of Brexit being cancelled altogether. Meanwhile, Labour and pro-European Conservative MPs will begin to float the idea of a softer Brexit deal as the Tory party continues to fracture. The news flow continues to come in thick and fast with reports stating that the DUP may begin to change its current stance on May's deal. This is sterling positive as the DUP's rejection in the meaningful vote also carried the votes of many Eurosceptic Tory MP's. The path of least resistance for sterling today continues to be higher as the chances of May's deal passing or an extension increases, although caution is warranted, as there may be further twists in the tale.

EUR

Euro strengthened for the fourth day in a row against USD, after reaching a 21-month low on EURUSD last week. This can be explained by some dip buying of investors who think most negative news for the Eurozone is priced in already and the euro will therefore not sink much further. Additionally, after some hopeful data from the services and retail sector last week, the January Industrial Production figures that came out yesterday suggested the troubled manufacturing sector may have hit its bottom. Activity in this sector increased by 1.4%, above the 1.0% forecast and much better than the 0.9% contraction in December. Of course, the return of faster growth in the Eurozone is still clouded in the usual disclaimers and caveats, but for now, it's a positive story as things appear not to be getting worse in Europe, economically speaking.

USD

USD lost ground against most currencies yesterday and now holds the dubious honour of being the worst performing G10 currency, although the JPY is following closely. This hints at an improved risk sentiment, although US inflation data tentatively backing up the Federal Reserve's dovish shift likely plays a role as well. After Tuesday's minor miss on the Core Consumer Price Index yesterday's Producer Price Index came in a tad soft too at +0.1%. Elsewhere, China's Industrial Output is increasing at a slower rate than economists predicted earlier, albeit still at a rate of 5.3% compared to last year, which may increase the pressure on China in its trade negotiations with the US. Today sees the Import Prices Index as the most important data release at 13:30 GMT.

CAD

The loonie continues its soft path of appreciation as oil prices firmed yet again. Oil prices climbed to fresh 2019 highs after US inventory data showed that crude and fuel stockpiles diminished. The absorption of excess supply is what crude investors have been waiting for and the loonie took the news in its stride.