ITALY AND EUROZONE GDP IN SCOPE THIS MORNING AS EURUSD CRACKS FRESH HIGHS

MORNING REPORT: 31ST JULY 2020

GBP

The tightening of coronavirus restrictions across large parts of northern England last did little to dent sterling's ebullience, and the pound has managed to hang on to yesterday's gains against the US dollar. Measured from Monday's low to today's high, GBPUSD is up 2.83%. By the same measure, GBPEUR has rallied 1.23%. The new restrictions announced last night on Twitter mean that people from different households have been banned from meeting indoors across areas including Greater Manchester and

Bradford. About 5m people will be affected, or about 7.6% of the UK population. The measures are reminiscent of the marginal tightening enacted in US states that have seen increases in coronavirus case counts in that they focus on restricting indoor, inter-household social gatherings. EU trade chief Phil Hogan gave an interview to the Guardian, where he said that there had been a "change in attitude" from the UK in trade negotiation with the EU while warning that talks were "not as advanced as we would like". Serious areas of difference on topics such as state aid reportedly remain, and Hogan called for the UK to publish their intended state aid rules.

EUR

The slew of eurozone data releases from yesterday and this morning did little to dent the euro's rally as structural dollar weakness arguably drove EURUSD to a 25-month high. Yesterday's data saw Germany record its worst-ever quarterly performance since records began in 1970, printing a contraction of 10.1% in GDP in Q2, slightly worse than expected. This morning, French GDP numbers showed a plunge of 13.8% compared to the 15.2% decrease that was forecasted, while Spain's economy shrank 18.5%. Spain's output showed the deepest contraction recorded in Europe so far, reflecting the impact of the stricter containment measures and the economy's reliance on its hospitality sector. Focus is now turned to Italian and eurozone GDP, German retail sales from June, and the eurozone's July Consumer Price Index, all to be released throughout the morning. The question is if they will be sufficient in denting the positivity around the euro at the moment.

USD

The dollar remained in freefall yesterday after a strong start in the morning session and has extended its losses this morning after the US reported its largest ever quarterly decline in gross domestic product. The DXY index, a dollar index weighted heavily to the euro and yen, fell to its lowest level in more than two years this morning. Yesterday was an incredibly eventful day in terms of news flow, with US Q2 GDP, earnings releases, and an incendiary comment from President Trump about delaying the November election. Gross domestic product contracted at a 32.9% quarter-on-quarter, seasonally adjusted, annualised rate, as per the convention for quoting the statistic in the US. Consumption dropped at a 34.6% rate, while fixed investment fell 29.9%. Higher-frequency data suggest that the Q2 contraction consisted of a sharp plunge in April, and a return to growth at some point in May that accelerated in June before stalling as virus control measures were re-imposed. Weekly initial jobless claims were also released at this time, and showed a minor acceleration, suggesting the growth slowdown in July has begun to create a second shock to the labour market. Donald Trump took to Twitter yesterday, making unsubstantiated claims that mail-in voting would compromise the November election and calling for a delay. The US President does not have the power to mandate a change in either the election date or the date at which he leaves office, as the mechanisms for both events are prescribed in the US constitution and legislation. Finally, US equities had a strong day after four of the largest US tech companies reported their earnings. Apple, Amazon, Facebook and Google all beat expectations, with Amazon's quarterly profit doubling and declines in advertising revenue at Google and Facebook showing signs of stabilization. Today at 13:30 BST, personal spending and income data will be released alongside price indices for personal expenditures and employment costs.

CAD

The loonie fell 0.62% yesterday on a day where the dollar's bounceback against the G10 currency board was short-lived. Unlike EUR, SEK and the likes, the Canadian dollar and Norwegian krone failed to pare their losses as the dollar began to broadly weaken again. This was likely driven by oil markets, which didn't like the horrendous GDP readings coming from the eurozone and US. This led to WTI closing below $40 per barrel for the first time since early July as lacklustre demand conditions remain a concern. These concerns are only amplified by the rising Covid counts in areas like Tokyo, Spain, Germany and Australia, which could lead to more localised lockdown measures. Also in yesterday's session, the Bank of Canada released its 8 dates for policy announcements next year, while also announcing that it is reviewing the timing of its monetary policy announcements which are currently due out at 10:00ET. Today, the loonie is recovering somewhat as the dollar weakens and WTI heads back up above $40, but yesterday's isolated slump begs the question; will the ongoing US outbreak be isolated to the USD or is it a North American story. With the US being Canada's largest trading partner, the prolonged recovery in the states is likely to weigh on Canada's economic recovery too. Today, following yesterday's barrage of GDP releases, we get Canada's GDP data for May at 08:30ET. This will be the first GDP reading since the lockdown measures were partially lifted, meaning markets will get their first taste of how Canada's economy bounced back. Expectations currently sit at a 3.5% MoM rebound after an 11.6% contraction in May.