

# USD STAYS STRONG DESPITE POWELL SOLIDIFYING RATE CUT BET

## MORNING REPORT: 9TH OCTOBER 2019



## USD

The Federal Reserve will resume buying treasuries to ensure calm in the money market, Fed chair Jerome Powell stated yesterday, but hastened to add "this is not QE". After much turmoil in the repo market over the last few weeks, where the New York Fed had to step in to supply dollar liquidity at month-end, Powell's comments clear up what was ambiguously stated as "organic balance sheet growth" previously. Although the headlines focused on the Fed's commitments to provide dollar liquidity and in effect regain control of short-term interest rates, Powell all but confirmed a rate cut is locked in at the end of the month to further

insure against uncertainty over "trade, Brexit and other issues" as inflation sits just shy of their 2% target at 1.8%. Further clarity from the Federal Reserve is likely to be given today with Powell speaking at 15:30 BST prior to the release of the latest set of meeting minutes at 19:00. It will be a busy end to the week for the dollar, with US-China trade talks also set to resume tomorrow in Washington.

## GBP

Sterling headed to lows for the month against the dollar and euro yesterday, as news flow suggested that negotiations between the EU and UK were at a breaking point and close to collapsing. The action started early in the morning when Boris Johnson and Angela Merkel had a phone call. A "he said she said" game quickly developed afterwards in international media, with UK sources reporting that Merkel had effectively insisted that Northern Ireland remain in a customs union with the EU, and Johnson responding that this meant that a deal was "essentially impossible". EU sources reacted furiously to the anonymously sourced report. This morning talks seem on the brink of collapse after a phone call between Johnson and Irish PM Leo Varadkar, although the Financial Times is reporting face to face talks between the two leaders may happen tomorrow or Friday. The Bank of England's Financial Policy Committee will release a statement on the risks to the UK financial system today, but the focus for sterling will remain firmly on Brexit developments. Possible political events of interest for Sterling today include ministerial resignations as reported by the Times, another rebellion from Conservative Party MPs as reported by the Financial Times, or an as yet unforeseen twist in the Brexit saga.

## EUR

The euro joined most of the G10 in losing ground to the US dollar yesterday as the risk mood shifted. An unnamed German official told Bloomberg that Germany doesn't see a recession and therefore there is no need for a fiscal stimulus package yesterday. This comes following calls from both ECB President Draghi and French government officials for Germany to loosen their purse strings and re-evaluate their Schwarze Null policy. The headline pushed the single currency lower as growth fears dominate FX pricing, with the news coming ahead of the October 15th deadline. Both Italy and France, the second and third largest economies in the Eurozone, have produced expansionary budgets thus far. There is little on the data calendar for the euro today with Italy's Panetta, dubbed to be Italy's next ECB board member after Draghi steps down, speaking in Rome.

## CAD

The loonie sold-off again yesterday as the greenback broadly strengthened following depreciation in both GBP and EUR. Growth fears resonated in oil markets and WTI failed to sustain its early morning rally. The loonie is currently taking fire from both sides. The Canadian economy remains strong, but external conditions are benefitting the US dollar and increasing demand concerns in oil markets.

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