ABER NEIN! GERMAN MANUFACTURING SECTOR CONTINUES TO WEIGH ON THE EURO

MORNING REPORT: 7TH FEBRUARI 2019

GBP

Once a quarter, and generally mid-way through the quarter too, the Bank of England releases fresh inflation projections along with its rate announcement. Today is such a day. The central bank is likely to remain in a bind due to Brexit uncertainty, and the array of repercussions different exit scenarios could generate, but a hawkish twist may be forthcoming. With the UK labour market remaining tight and real wage growth hitting a multi-year high, today's inflation projections, that are based on the current UK-EU relationship, could show inflation remaining firmly above the 2% target in the medium-term. If this is the case, a delay in Article 50 or the ratification of a withdrawal deal could prove sufficient for the BoE to resume hiking rates. The market currently prices in a 50/50 chance of a 25 basis point hike in 2019 from the Bank of England, but once Brexit uncertainty is removed, the odds will be re-evaluated given the strong economic fundamentals of the UK economy. Any reference of this from Governor Mark Carney today will likely prove enough for sterling to break its poor run of form over the last week or so. In Brexit news, May continues her uphill battle in Brussels today.

EUR

The barrage of negative German Manufacturing data seems endless with yesterday's Factory Orders showing a contraction of 1.6% in December and this morning's Industrial Production showing a 0.4% decline in the same month. The euro took it personally and declined for the third day in a row against USD yesterday and continues to be under pressure again this morning. The details were sobering as well, with export orders as well as domestic construction underperforming, showing the slowdown comes from inside as well as outside of Germany. Today sees the triannual European Commission Economic Forecasts, for which it will be hard to strike a positive tone in our estimate after all the recent disappointing data, but we would be happy to be surprised.

USD

The greenback continued its solid week and topped the G10 currency board again yesterday, with an improving Trade Balance figure adding to the positive momentum. The trade deficit shrank to $49.3 billion in November, better than the $54 billion shortage expected. Federal Open Market Committee Vice-president Richard Clarida kicked off the shift towards a more dovish Federal Reserve with a speech before Christmas and as he speaks today at 14:30 GMT, he will once again find all eyes on him to look for further hints about the pace of US monetary policy.

CAD

The loonie is holding relatively well against a rampant US dollar this week and finds itself in the middle of the currency board, despite lower oil prices and marginally soft data yesterday. The Ivey Purchasing Manager Index came out at 54.7, below the forecasted 56.4, although it signals the Canadian economy is still solidly in expansionary territory. Meanwhile, Bank of Canada Deputy Governor Timothy Lane suggested a weaker CAD would be positive to help boost the foreign trade sector in the current difficult moment for the economy. Nevertheless, the loonie wasn't that impressed by his remarks and didn't really budge " for now.

FX ELSEWHERE

This morning, the Reserve Bank of India surprised market participants on the whole after cutting rates by 25 basis points to 6.25%. The general market consensus was that the monetary policy stance would be altered to neutral from "calibrated tightening" before a rate cut in an attempt to smooth expectations, but with inflation at an 18-month low in December, the RBI took more dramatic measures. This is the first monetary policy meeting headed by the new Governor Shaktikanta Das after the politicised departure of Urjit Patel, and this morning's move sees the central bank's stance run more in line with the government's in an attempt to increase output. The rupee initially lost ground against the USD on the announcement, but its fortunes turned relatively quickly.