

DOLLAR PLUNGES WITH ISM AS GROWTH FEARS RE-EMERGE

MORNING REPORT: 3RD OKTOBER 2019



USD

The US dollar rolled over yesterday, selling off broadly as a crucial business survey crashed to its lowest level in a decade on Monday. The widely followed ISM Manufacturing Purchasing Managers' Index fell to 47.8, indicating a severe slowdown in the sector in the United States. The reaction in US markets was severe. Sovereign yields fell sharply, as did overnight swap rates " indicating significantly increased expectations of further rate cuts from the Federal Reserve in the near future. Equities sold off, as did the dollar. US President Donald Trump blamed the stock market falls on impeachment proceedings " in contrast to the

anecdotal reports and comments that accompanied the ISM Survey, which blamed the trade wars initiated by the Trump administration. The President also posted a video on Twitter of potential presidential rival Joe Biden, his son, and a Ukrainian businessman, set to a backing track by popular Canadian rock band Nickelback. Today, markets will focus on the Services PMI released at 14:45 as soft data deteriorates globally.

GBP

Sterling followed a familiar pattern yesterday, selling off around midday before rallying to close broadly flat against the US dollar. The combination of relative sterling firmness and a global equity rout meant that the FTSE 100 saw its biggest one-day sell-off since 2016. The FTSE 100 has a large proportion of companies with overseas revenues, and therefore typically suffers from sterling strength. Boris Johnson presented his plan for a Brexit deal to the EU, which revolved around a combination of limited alignment with EU rules in Northern Ireland, and a "Stormont lock" or veto for the Northern Irish executive and assembly for the arrangement. EU leaders responded frostily but did not reject the proposal outright, with European Commission President Jean-Claude Juncker releasing a statement that said negotiations on the proposal would commence. The proposal will also be debated in the House of Commons today. The Services Purchasing Managers' Index will be released today at 09:30 BST.

EUR

The euro benefitted from the broad US dollar weakness that followed yesterday's poor survey data in the US. Purchasing Managers Indices for Spain, Italy, France and Germany will be in focus this morning data-wise, as the final survey figures for last month will be released, after flash readings of the surveys earlier in the month indicated a severe downturn in the German manufacturing sector. Eurozone Producer Prices will be released alongside Retail Sales at 10:00 BST. This morning's papers are reporting on statements by the Chief Executive of insurer Allianz, Olive Bate, who attacked the European Central Bank's quantitative easing program with extraordinarily harsh and explicit terms in an interview with the Financial Times. The statements highlight the high levels of opposition to the ECB's easing programme in certain parts of the Eurozone, particularly Germany " and the difficulties that incoming ECB Chief Lagarde will face should the programme need to be expanded.

CAD

USDCAD rose to its highest since September 23rd, as the turmoil in equity markets and concerns about slowing growth in the US affected investor risk appetite. The spread between US and Canadian yields narrowed as US yields fell, but this did little to support the loonie. Oil markets felt the squeeze yesterday with WTI falling some 2.52%. The EIA report in the US showed crude inventories were beginning to build again and reinforced the concerns of a slowdown in demand that were planted by the downturn in manufacturing PMIs globally. Domestic media focussed on the election campaign, with Trudeau going on

the offensive in a Debate and attacking Conservative leader Scheer on abortion rights.

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