

DRAGHI'S DOVISH TUNE DRIVES TRUMP MAD AND EURUSD LOWER

MORNING REPORT: 19TH JUNI 2019



EUR

Yesterday, European Central Bank President Mario Draghi let the interest rate cutting genie out of the bottle in a speech at the ECB's annual forum in the Portuguese city of Sintra as he remarked cutting rates are a part of the ECB's "toolkit". Additionally, he noted that there is plenty of "headroom" with the Asset Purchasing Program which markets took as a hint that both lower rates and further central bank asset purchases remain an imminent possibility. Euro prospects later began to appear even bleaker as President Trump reacted to Draghi's speech with a tweet in which he implicitly accused the ECB President of

intentionally weakening the euro. From Trump's perspective, this is unfair competition against US exporting companies, which fans the fears the US President may decide to strike back with import tariffs on European Union cars shortly. As a result, the euro fell off a cliff with only the Swedish krona conceding more terrain against other G10 currencies. Today the ECB forum continues in Sintra with two-panel discussions and a concluding speech by Mario Draghi at 15:00 BST, which means the potential for wild euro swings remains with us today. The Current Account is out at 10:00.

USD

The dollar is the main player in town today ahead of the most crucial Federal Reserve meeting of the year occurring tonight at 19:00 BST while potential US sanctions on Turkey also loom. Yesterday saw Chinese authorities confirm that President Xi and Trump will meet at the G20 summit on the 28-29th of June, calming market fears of resurgent tensions between the two economic powerhouses. Following dovish comments from Fed officials last week, tonight's FOMC rate announcement brings substantial market attention as the US central bank could ignite a synchronised global cutting cycle as economic conditions begin to deteriorate. With tonight's meeting occurring before the G20 summit, which is building to be pivotal for the future of trade relations between the US and China, and with the economic data painting a mixed picture of the US economy we believe the Fed is unlikely to change rates tonight and instead opt for changing the forward guidance measures to signal future rate cuts while stressing data dependence.

GBP

Sterling rallied on the back of a broad risk-on move yesterday after it was confirmed that Trump and President Xi will meet at the G20 meeting. In Brexit, the second round of voting saw the former Brexit Secretary Dominic Raab leave the race after receiving 30 votes, just 3 votes shy of the minimum required. Current frontrunner Boris Johnson added to his lead with a further 12 votes, bumping him up to 126 votes, with Jeremy Hunt and Michael Gove leading the chasing pack with 46 and 41 votes respectively. The biggest gain was seen by Rory Stewart. Stewart drew a lot of attention from journalists following his strong performance Sunday evening on Channel 4's debate. The current Secretary of State for International Development has surprised many with his rising support and now sits above Sajid Javid ahead of further rounds of voting today. 48 hours remain for all candidates before the final 2 MPs fight it out to become the next leader, and by 18:00 BST today the field will be reduced to at least 4 members. Elsewhere, this morning sees the release of the Consumer Price Index measure of inflation for May with a minor reduction of the headline figure from 2.0% to 1.9% expected. The data has recently taken a backseat to political developments, however.

CAD

Mixed Manufacturing Sales quickly faded into the shades of oil prices that towered higher in yesterday's sessions, which helped the loonie move towards the top of the G10 currency board. WTI crude oil prices rose

more than 4% on the day after news came out US President Trump and Chinese President Xi will meet at the G20 summit next week, which revives hopes of a resolution at some point of the US-China trade dispute. Yesterday evening the Canadian government approved the Trans Mountain Energy pipeline. Although this didn't directly impact FX markets, it should play out as a CAD positive factor as foreign funds will be exchanged into Canadian dollars in order for foreign investors to take part in the humongous \$5.5 billion project. Today the loonie remains in our focus with the Consumer Price Index figures at 13:30 BST, while the FOMC meeting and press conference in the evening have a great potential to influence CAD's most traded currency cross, USDCAD.