

MARKETS TRADE ON LOW VOLATILITY AWAITING US-CHINA HEADLINES

MORNING REPORT: 22ND NOVEMBER 2019



GBP

Sterling made a run at regaining the highs seen earlier in the week, briefly trading near the one-month highs against USD that it was trading at on Monday, before falling back in the evening. The Labour Party unveiled their election manifesto, which was by far the most radical platform a major political party has run on in the UK since the candidacy of Margaret Thatcher. The proposals in the manifesto revolve around a "tax and spend" program of historic proportions, renationalisation of various sectors, and distribution of wealth and

income. Condemnation quickly flowed from most corners of the UK commentariat not explicitly aligned with the Labour Party, with think tanks such as the IFS and newspapers such as the FT warning about various aspects of the proposals. This morning's main release will be the Markit Manufacturing Purchasing Managers Indices.

EUR

The euro has had an eventful morning and is trading slightly lower after Christine Lagarde's used the occasion of her first major speech as head of the European Central Bank to call for a "new European policy mix". Lagarde argued that monetary policy could achieve its goals "faster and with fewer side effects" if other policies "ie fiscal spending" were supporting growth. Lagarde's call for fiscal loosening was far more specific and explicit than her predecessor Mario Draghi and come at a time when the consensus of international economist opinion has swung heavily behind her position, with the exception of German and Dutch policy circles, ironically exactly the circles where fiscal easing is most warranted. Eurozone purchasing managers indices were also released this morning and came in broadly in line with expectations, with manufacturing remaining in contraction and services just in growth.

USD

The dollar continued to firm yesterday in what was a relatively muted day in G10 FX when discounting the loonies price action. South Pacific currencies fell on fears US President Donald Trump will sign the Hong Kong bill, which could become a new impediment to a narrow trade deal being reached. Following the Bloomberg release on Wednesday, markets are continuing to trade as if the narrow trade deal won't be reached until the new year, increasing the impact of economic data releases in a low volatility environment. Today, the November preliminary IHS Markit PMIs for the service and manufacturing sectors are released.

CAD

The loonie broke this week's losing streak after Bank of Canada's Governor, Stephen Poloz, said he believed monetary conditions are "about right" at a fireside talk in Toronto. Although Poloz stressed that the Bank of Canada was closely monitoring external conditions, and the impact it may have on the Canadian economy from spill over effects, the speech struck far more neutral tones than his deputies earlier in the week. Wilkins discussed complacency in the monetary sphere amidst growing global uncertainty, and her speech sent the loonie half a percentage point lower. Poloz's comments didn't cause as much of a rally, but markets did begin to trim their expectations of an insurance rate cut by the Bank of Canada to just 12.5% from 26% earlier in the week for Decembers meeting. Today, the loonie continues to trade on the front foot with September's retail sales data scheduled for 13:30 GMT.

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