MAY RETURNS TO MAGIC MONEY TREE TO BUY A BREXIT DEAL

MORNING REPORT: 4TH MAART 2019

GBP

Sterling starts the week on the front foot after Theresa May nips to the money tree that bought her a coalition government in an attempt to buy a Brexit deal. The £1.6bn "stronger towns" fund looks designed to swing Labour MP's from Brexit support towns to vote for the current deal in next week's second meaningful vote. The money looks to be targeting the Brexit heartland in the North of the country whereas the South East, East and South West of England share a meagre £100m between them. With all the factors in play; a bribe, a new independent party and possible stronger language on the Irish border, May's deal may find a smoother route through Parliament this time around. However, sterling is still trading on the presumption that an extension is the likeliest option, but risks may begin to pile to the upside should more conciliatory tones echo from Brussels. This week the data calendar is light for the pound, meaning the impact of Brexit related headlines may be heightened as the clock winds down.

EUR

The single currency outran all G10 currencies on Friday, except for USD, after Eurozone inflation proved resilient after an earlier miss on Thursday on the French reading. The Consumer Price Index first estimate for February came in at 1.5%, although the core inflation slipped back to 1.0% again. This bodes for a dovish European Central Bank on Thursday, with the core inflation continuing to remain lacklustre, with decade high wage growth apparently not being sufficient to pump up the price pressures. The Eurozone labour market meanwhile seems the last bastion of the economy able to continuously deliver positive surprises, with the Unemployment rate dropping to a fresh decade low at 7.8%. Datawise it promises to be an interesting week for the Eurozone, with important events sprinkled out over the week; Final Services Purchasing Manager Indices on Tuesday, Germany Factory Orders on Friday and on Thursday the Revised

Q4 Gross Domestic Product reading and the ECB Rate Announcement followed by a Press Conference.

USD

The Chinese yuan continues to make strides against the US dollar after people familiar with the trade war stated that both parties are close to agreeing a deal. The Wall Street Journal's front page reports that Beijing is offering to lower tariffs on US agricultural products and automobiles in return for the reduction of most tariffs from the US. Increased demand for US agricultural goods is an increasing concern for the Trump administration, with the White House likely to target the highly shielded EU food market next. Little progress, if any, has been mentioned on intellectual property theft from China which was arguably the root cause of the trade war to begin with. Trade experts expect a US-China summit on March 27th after President Xi finishes his tour of central Europe. Meanwhile, delayed labour market data that is released on Friday is top of US investor's watch list this week.

CAD

Friday's brutal GDP release erased the last two weeks of loonie strength in the space of an afternoon after the data showed the economy had all but ground to a halt in the fourth quarter. Annualised GDP growth fell to 0.4% from 2.0% in Q4. The median forecast submitted to Bloomberg was for 1% growth. The details of the report contained no silver lining " consumption grew at the slowest pace in four years, while business investment saw a second consecutive quarterly decline. The Bank of Canada will therefore almost certainly be on hold this Wednesday, and may well be forced to revise the outlook for policy if the economy's growth prospects do not pick up.