NO CHRISTMAS CHEER FOR STERLING

MORNING REPORT: 24TH DECEMBER 2019

GBP

Holiday cheer and a lack of data releases were no barrier to further sterling losses yesterday, as the pound fell for a fifth straight day against the US dollar, its longest such streak since May. Although the major currencies generally struggled against the US dollar, sterling was among the biggest losers nonetheless. Poor Brexit sentiment was much discussed as a likely driver, as the prospect of the UK leaving its transition arrangements with the EU without a free trade deal came into focus. However, simple profit taking after the election could also explain a good chunk of the losses. The UK’s status as a newly geopolitically and
economically unaligned actor is on display this morning, as US National Security Adviser Robert O’Brien has warned in an interview with the FT that choosing Chinese company Huawei for 5G infrastructure would present a serious national security risk. A trade deal with the US has been a consistent part of pro-Brexit political messaging for years, as a potential economic opportunity.

**EUR**

The euro traded in a narrow range against the US dollar yesterday, and with Germany enjoying a bank holiday for Christmas Eve the quiet may continue today. The FT released a poll of economists on the likely outcome of Christine Lagarde’s first year as head of the European Central Bank. One of the more interesting conclusions was that the ECB’s strategic review next year would result in a change in the ECB’s approach to inflation targeting. For example, the ECB’s current goal of inflation close to but below 2% may be changed to be more symmetric, therefore raising the bar for an eventual normalisation of interest rates.

**USD**

The dollar remains well bid this morning, trading near a two week high on small but broad gains against major currencies. The Bloomberg dollar spot index is practically unchanged compared to the end of last year, having unwound a brief period of exceptional strength seen around the time of the peak of US-China trade tensions. Yesterday’s data included poor prints for Durable Goods orders and New Home Sales, both of which misses expectations, the former by a wide margin. The House of Representatives passed USMCA trade agreement legislation yesterday, sealing a deal long in the making and widely expected. Today at 15:00 the Richmond Manufacturing Index will be released.

**CAD**

The loonie maintained its position as the best performing G10 currency of the year yesterday, as its nearest rival GBP continued to unwind its post-election gains. Canada’s economy shrank unexpectedly in October, the first monthly contraction in eight months. Given the contraction was only 0.1% it did not significantly change the picture for the loonie. A US auto strike weighed on manufacturing activity, contributing to the surprise fall.

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