

STUCK IN THE MUD STERLING

MORNING REPORT: 14TH JUNI 2019



GBP

The pound continues to flat against the US dollar move as currency traders remain reluctant to move the needle given substantial political uncertainty remains. Yesterday saw 3 Tory leadership candidates exit the race at the first stage. Mark Harper, Commons Leader Andrea Leadsom, and Esther McVey were all knocked out following the first secret ballot leaving just 7 candidates in the race. The odds for Boris Johnson jumped substantially to make him 83% likely to become the next leader after the former Foreign Secretary secured a whopping 114 votes. Jeremy Hunt came the closest to Johnson with a meagre 43 votes in comparison, while Michael Gove placed third with 37 votes of support from fellow Tory MPs. "The margin of success took Johnson's fellow candidates by surprise," said the BBC's Political Editor. The next stage for

candidates is the Channel 4 debate on Sunday before the second round of votes on Tuesday. Candidates will need to secure at least 33 votes in the second stage, with further knockout rounds potentially scheduled for Wednesday and Thursday before the final 2 candidates remain.

EUR

Worrying Industrial Production figures didn't rock the boat for the euro yesterday as a soft print was well signalled by previous German and Italian data. April IP came in at a year on year growth rate of 0.4%, from a revised -0.7% in March, with negative month on month growth in April of -0.4% still pointing to downside risk for Q2 IP. Today European Union member states' Finance Ministers meet in Brussels for their monthly meeting.

USD

A global risk-off move caused by turmoil in the Middle East and Hong Kong lifted the entire US yield curve yesterday, though this did not materialise into a much stronger dollar as a result. Import Prices declined by 0.3% in May after three consecutive months of increases, taking away some of the weight behind the punch of the argument that trade tariffs may be inflationary before they start to noticeably slow down the economy. The US and Iran in the meantime busy themselves by blaming the other party either of involvement in the attack on two oil tankers in the Gulf of Oman (the US blames Iran) or of fabricating false evidence (Iran blames the US). This increases the risk of further escalating confrontations between the US and Iran, which would aghast the world, but be a boon for safe-haven currencies like JPY, CHF and USD. Today sees the Industrial Production figures and Capacity Utilization rate at 14:15 BST.

CAD

The loonie found a leg of support yesterday as oil markets rallied following a crash in the coast of Oman. The oil tanker attack sparked supply fears and sent WTI prices up 2.37%. With little in the calendar for the loonie, participants will keep a close eye on the stability in crude markets, murmurs from OPEC ahead of the crucial meeting at the end of the month, and US retail sales prior to the FED meeting next week.

FX ELSEWHERE

HKD may be a surprising outperformer in the land of FX this week as it made advances against the entire G10 currency board, despite ongoing protests on the streets of one of the most prosperous Asian countries. It currently stands at its strongest level since December, helped by liquidity tightening with one-month interbank borrowing costs jumping to the highest level in more than a decade this week. Simultaneously, it's getting more and more expansive to short the currency against USD, as the forward points on the local currency stand at their highest level against USD since January 2017. Safe-haven flows due to the recently deteriorated global risk sentiment then proved another factor that boosted HKD to its current highpoint. These reasons help to explain why HKD is holding so well, despite the unrests on the streets.