

TRADE TRUCE STRUCK; USD AND EMFX THROW A PARTY

MORNING REPORT: 1ST JULI 2019



GBP

Sterling takes another leg lower against the dollar this morning but doesn't suffer losses as extensive as the euro, lifting GBPEUR off lows not seen since January. This week, both Tory leader contenders Hunt and Johnson hold hustings with grassroots members before postal ballots are released to the 150,000 Conservative party members this weekend. This morning, Jeremy Hunt unveiled plans to prepare Britain for a no-deal Brexit as he seeks to show Tory members how serious he is about leaving the EU regardless of the type of deal on the table. The plans outline a £20bn package which would include a £6bn relief payment for

UK farming and fishing markets in the event of WTO trade rules. Jeremy Hunt will also appear on Sky News at 19:00 BST tonight without Johnson who has decided to not attend a further debate, so tonight will just feature a Q&A with the Foreign Secretary who continues to make a serious challenge for the keys to number 10.

EUR

Balmy weather over the weekend in continental Europe did little to boost the euro as global trade sentiment pushed everything else out of the spotlight. The resulting USD and Emerging Market FX strength left EUR behind bedazzled this morning as the single currency awaits a week filled with political drama. The top jobs for the European Union are up for grabs and Members of the European Parliament this week will get to choose a new President, Vice-President and influential committee heads who will scrutinise and amend vital legislation. Meanwhile "la dolce vita" may turn a little bit less idyllic this week as the European Commission gathers on Tuesday to decide whether it follows through upon taking disciplinary action against Italy over its breach of EU budget rules. At present, it seems like the Italians still have enough room to walk back earlier spending pledges and avoid pecuniary punishments from Brussels, which is reflected by nonchalance by which Italian 10 year government bond yields dropped to a 13-month low earlier in June.

USD

The greenback strengthened this morning after US President Trump announced "no further tariffs" on China indefinitely, which means a derailing of global trade, for now, won't force the Federal Reserve into hastening into a cutting cycle. This is evident in the US yield curve which has risen in the European open as woes of an extensive set of cuts from the Fed abate for the time being. Later when Trump visited South-Korea he declared the US is "winning" the trade war, arguing China is paying for the tariffs as US inflation remains subdued. Also, Trump sneered in the direction of Fed Chair Jerome Powell by saying the Fed "has not been of any help to us at all" pointing to the fact the Fed rose rates since his presidency began, while the People's Bank of China lowered the Reserve Requirements for banks this year, while China's overnight repo rate fell to a four-year low last week. This adds fuel to the speculations that President Trump at some point will attempt to get rid of Jerome Powell, or at least fill the Fed's cot with nothing but doves as he gets to appoint two new Federal Open Market Committee members this year. This highlights that despite the firmer news on trade and the potential improvement of US data on the back of this, dovish risks to US rate policy remain. With the trade truce struck, the focus of markets will shift to US domestic data once again, with the focus fully on the Non-farms labour report of this Friday. May brought a soft reading and markets will be looking for hints about whether this was a one-off event, or the start of a trend of greater substance.

CAD

OPEC member country's oil ministers will meet in Vienna today with non-OPEC ministers meeting

tomorrow for the OPEC + conference, however, all is not well within the cartel. Russian President Vladimir Putin announced over the weekend at the G20 summit in Japan that he and Saudi Arabia's crown prince, Mohammed bin Salman, had agreed to extend the existing supply cuts of around 1.2% of global demand by 6-9 months with no deeper reductions needed. While this is positive for crude markets which sit in the green this morning, as WTI cracks a \$60 barrel, it has only deepened tensions within the group. Iran's oil minister stated that the cartel could "die" if policy keeps being set unilaterally. While Mr Zanganeh stated that Iran would not attempt to block the current policy, it highlights the entrenched divisions within the group. Despite it being a bank holiday in Canada today, developments in oil markets and fixed income markets will keep the loonie busy post-G20 summit.

FX ELSEWHERE

Can't stop me now. The words of EM currencies this morning following a ceasefire in tensions between the US and China over the weekend as the risk-on climate returns. The Russian ruble and Turkish lira are the main beneficiaries this morning as high yields and the potential for further sanctions from the US seem distant. The ruble is also boosted by surging oil markets, whereas the South African rand starts to take some losses as slowing growth remains a worry for investors pulling capital to park in safe-haven assets.