

# BoC set to hold fire until July, emphasis is on their reading of recent data

9th June 2021

## GBP

Despite trading in a 0.56% trading range over the course of the week, GBPUSD price action has been relatively muted on an open-to-close basis. Yesterday, the pound joined the rest of the G10 currency board, with the exception of the Swiss franc, in sustaining losses against a broadly resurgent dollar. However, this morning sterling has retraced all of the ground lost after the Bank of England's outgoing Chief Economist stated that the economy is "going gangbusters" and inflation isn't far behind. Haldane's comments on LBC allude to the fact that the Bank of England will need to tighten policy faster than what is currently signalled by other policymakers, however, this stance from the Chief Economist isn't a new phenomenon for markets. This explains why sterling's reaction to the commentary was so muted, with the pound trading 0.17% higher against the dollar at time of writing.

## EUR

Yesterday's session for the euro was nothing to write home about: the currency largely ignored economic data coming from the bloc and volatility remained muted as traders positioned themselves ahead of tomorrow's European Central Bank monetary policy decision. The overnight session wasn't much different, although the euro has mildly rallied against the US dollar since open following broader USD moves. The German ZEW current conditions indicator saw a major improvement in June to -9.1 from -40.1 a month earlier, as the optimism in the expectations index is slowly spilling over to current conditions with larger parts of the population being vaccinated and economies starting to reopen on a more stable footing. Eurozone final GDP numbers were revised upwardly as well, with the QoQ figure being upgraded from -0.6% to -0.3% while the YoY figure was changed from -1.8% to -1.3% - all ahead of Thursday's ECB meeting. Although calls for stimulus measures to be scaled back are getting louder following the improvement in economic conditions, the ECB will likely tread carefully as to not change its communication tone too much. Today's data calendar for the eurozone includes no top tier data, shifting all focus to tomorrow's central bank decision.

## USD

The dollar stole the show again in markets yesterday as little economic data elsewhere placed emphasis on the

NFIB Small Business report and the JOLTS job openings data. The NFIB survey showed small business owners struggling to find qualified employees, forcing higher wages and restricting growth in that sector. In their jobs report last week, a record high 48% of business owners reported unfilled positions in May, up from 44% in April, and 93% said they couldn't find qualified applications for open jobs. To cope with the labour shortages, the survey showed 34% have had to raise wages, up from 3% in April's survey, highlighting the labour supply issues that are restricting faster net employment gains. The JOLTS data that was released soon after highlighted the health of labour demand, with some 9.286m job openings available in April. The unemployed-to-job opening ratio that the Fed's Bullard likes to watch is now sitting at 1.1, levels close to pre-pandemic levels and below the pre-financial crisis lows of 1.4. Today, US fixed income markets are trading in a calmer manner, with bear flattening in the Treasuries curve resulting in mild USD weakness against most G10 currencies. Tomorrow's CPI data for May is likely to be the catalyst for another strong re-pricing in the dollar ahead of next week's FOMC meeting.

## CAD

The loonie joined the rest of the G10, excluding the Swiss franc, in weakening against the dollar despite WTI cracking above \$70 a barrel. Today, the loonie continues to trade in line with the broad US dollar move as it retraces part of yesterday's decline. On the data docket today is the Bank of Canada meeting at 15:00 BST/ 10:00 ET. The Ottawa-based central bank isn't expected to alter policy at today's meeting after they tapered their QE purchases from C\$4bn a week to C\$3bn a week back in April's meeting. With the economic data underwhelming since their decision to taper, and with no fresh projections and press conference today either, the market consensus expects the central bank to cast a neutral tone and delay any further monetary tightening to the July 14th meeting. What may be more decisive for the loonie is the tone in which the policy statement takes with regards to recent economic data and the outlook as provinces start to exit tighter lockdown conditions. In this regard, markets will also get an economic update from BoC Deputy Governor Timothy Lane tomorrow.

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