

Loonie enjoys risk improvement, reversing Friday's losses

5th October 2020

CAD

The loonie has started this week higher against the dollar as the greenback begins the week trading softer across the board. Markets continue to focus on the US President's health after he was admitted to hospital over the weekend following a positive Covid-19 test, but today's pricing shows signs of a more positive risk environment despite rising case counts and discussions of future containment policies in major economies. The improvement in the risk climate is likely an unwinding of Friday's risk-averse trading after physicians signalled late last night that the President is healthy and could potentially be discharged as soon as today. Meanwhile, discussions of further stimulus are positive, with House Speaker Pelosi saying Trump's diagnosis "changes the dynamic". The increased likelihood of a healthy US president and further stimulus are helping to soothe oil markets, which sit over 2% higher today. Over the weekend, Bill C-4 received royal assent, helping stitch together holes in Canada's social security net after the expiration of the CERB scheme. This undoubtedly improves Canada's macro outlook albeit at the expense of a steepening projection of the fiscal deficit. This week, the focus for the loonie will be on global macro conditions, along with Friday's jobs report prior to the lock thanksgiving weekend.

USD

Most major US markets were closed on Friday night when Donald Trump announced that he had tested positive for Covid-19, and so there was no reaction in the dollar. By the time trading in the dollar and US equity futures had resumed, the US President had time to be hospitalised, make assurances that he was already recovering rapidly, release a video, and take a televised car tour to see some supporters outside hospital. As such, US equity futures opened mildly higher, and the dollar was largely unaffected by the news. News of the President's health will of course be of primary focus for US markets this week, although a number of noteworthy releases dot the calendar. Market and ISM services purchasing managers indices will be released today at 14:45 and 15:00 BST respectively, while later in the week minutes from the latest Federal Open Market Committee meeting will be released on Wednesday.

EUR

The euro also enjoyed a boost from the dollar's softer trading this morning following reports that the US President

may be released from hospital and hopes for a fiscal stimulus deal from the US are also boding well for risk appetite. This morning's eurozone data calendar included a sharp contraction in composite and services Purchasing Managers' Indices from Spain. The composite PMI dropped from 48.4 in August to 44.3 in September, while the services index fell from 47.7 to 42.4. IHS Markit's director Paul Smith commented that "September's services data highlights how the recovery from the most severe impacts of COVID-19 earlier in the year is faltering. With infection numbers rising, demand is again turning downwards, both from domestic and international clients, and weighing heavily on those services industries that are so crucial to Spain's economy" The Italian composite and services PMIs did slightly better than the prior releases and printed at 48.8 and 50.4 respectively. For France, Germany and the eurozone, the PMI releases were a revision of the earlier released figures from September. While the French PMIs remained the same, both of Germany's PMI figures were upgraded from last time, with the composite PMI printing at 54.7 up from the prior 53.7, and the services index printing at 50.6 up from the preliminary 49.1. The eurozone PMIs were revised upwards as well, although the services PMI did remain in contractionary territory at a level of 48.0. Meanwhile, Madrid, Europe's hardest-hit city, was put under new containment measures while Paris region's alert level was raised to a maximum. With infections in the eurozone continuing to rise at a rapid pace, this may limit the eurozone's currency gains. Overall, however, the US fiscal stimulus and any developments in risk appetite will be key for EURUSD this week.

GBP

Sterling is consolidating last week's modest gains this morning, after Boris Johnson and Ursula von der Leyden agreed to continue trade talks between the UK and EU. The UK Prime Minister and European Commission president agreed to move talks to an "intensified" stage, and are reportedly now personally engaged in finding solutions to the final sticking points around state aid, dispute resolution, and fishery rights. In a joint statement, the two said "progress had been made in recent weeks", but that significant gaps remained. Following the introduction of UK legislation that would empower ministers to breach last year's withdrawal agreement, the EU is seeking a robust dispute resolution system " something that may paradoxically make passage of a deal easier despite the UK internal markets bill. EU chief negotiator Michel Barnier will hold bilateral talks with EU ministers this week, in the hopes of identifying alternative models for fishing rights that may break the current deadlock on the issue. Talks with UK negotiator David Frost and his team will resume on Wednesday. Fishing comprises only around 1 billion pounds of the UK's gross domestic product, which usually totals more than £2.1 trillion over the course of a year.

DISCLAIMER: This information has been prepared by Monex Canada Inc., an execution-only service provider. The material is for general information purposes only, and does not take into account your personal circumstances or objectives. Nothing in this material is, or should be considered to be, financial, investment or other advice on which reliance should be placed. No representation or warranty is given as to the accuracy or completeness of this information. No opinion given in the material constitutes a recommendation by Monex Canada Inc., or the author that any particular transaction or investment strategy is suitable for any specific person. The material has not been prepared in accordance with legal requirements designed to promote the independence of investment research, it is not subject to any prohibition on dealing ahead of the dissemination of investment research and as such is considered to be a marketing communication.