Loonie posts lacklustre gains as crude drops and US growth warnings flash

24th November 2022

CAD

After wild gyrations during the relentless onslaught of US data, the loonie closed 0.15% stronger than when it opened. While growing risk appetite allowed every other G10 currency to post a healthy rally against the US dollar, with gains ranging from +0.9% to +1.8%, the loonie's lacklustre improvement was linked to a near-4% drop in the price of crude oil and signs of the US economy slowing. Very few Canadian headlines flashed across traders' screens on Wednesday. The main event was BoC Governor Macklem's testimony to Parliament near the tail-end of the North American session, a time when liquidity tends to be very thin. Macklem merely reiterated previous comments that the tightening cycle is nearly but not quite over and that negative economic growth is possible in Canada but not his base case. Volatility will likely be on the lower side today. The economic data tabled for release today is usually ignored by markets and US traders are on holiday for Thanksgiving.

USD

After making a round trip at the start of the week on shifting considerations to China's growth outlook" firstly on renewed Covid lockdowns and then on signs of loosening restrictions on the beleaguered tech market"the dollar geared up for an explosive end to the effective US working week. While the data deluge included durable goods and initial jobless claims data, it was ultimately the usually-overshadowed PMI release that saw markets come to life. The substantially pessimistic flash composite PMI data for November, at 46.3, saw the risk-on rally extend from gains initially recorded in the overnight Asian session. Not only did the data show that economic activity had slowed across a number of firms, but it also revealed the first signs that the economic imbalances that stimulated inflation over the course of the year had started to normalise. Input costs moderated due to improving supply chains and lower material costs, and unlike in Europe, were quickly being passed onto the consumer due to demand pressures. Although the impact of the PMIs was limited on Fed pricing and the Treasury market, the FX market gobbled up the data given as it aligned with the overarching confirmation bias that has been in place since early October. The release of the Fed's latest meeting minutes later In the day posed a risk to the rally, but despite reiterating the Fed's preference to move towards emphasising the level of rates as opposed to the pace of tightening to repay a hawkish message, the fact that the Fed's perceived hawkishness was linked to durable inflation pressures meant the minutes were now somewhat dated following October's CPI report. This saw the dollar extend its slump with the DXY falling close to a percentage point on the day to 106. Today, the US market holiday for Thanksgiving means liquidity conditions are likely to thin as European traders exit for the day, with a similar dynamic expected on Friday as most Americans extend the holiday into a long weekend. Despite the fact that US markets are closed for the day, higher US equity futures on the back of yesterday's meeting minutes is helping extend the dollar decline, with the DXY trading 0.28% lower overnight despite China's Covid cases hitting a fresh record high.

EUR

With gains of 0.9% on the day, the euro was one of the laggards against the broad dollar in yesterday's session. Valuation factors, continued downside risks to economic fundamentals, and a challenging Chinese growth outlook likely combined to cap the euro rally as it climbed towards the top of its recent range. Overnight, however, the rally in the single currency persisted as the Asian session exhibited an extension in the dollar's downside. However, it is notable that, unlike other currencies, the euro struggled to hold onto these gains as Europe opened. Today, the IFO data out of Germany will be closely watched as economic sentiment indicators have broadly improved along with the energy backdrop. Meanwhile, ECB speakers Schnabel and Nagel will also be in scope at 13:00 GMT and 16:00 GMT respectively. Prior to their commentary is the publication of the ECB's latest meeting minutes. Given the deluge of ECB commentary since the October meeting and the upside surprise in headline CPI just a day after, however, the minutes are unlikely to give further guidance to the ECB's next steps in December.

GBP

Sterling was somewhat unfazed by yesterday's release of November's flash PMI figures. On the one hand, the data exceeded expectations, helping to assuage some fears that the economy was rapidly entering into a sharp recession in Q4. While on the other hand, the data still painted a negative picture of the UK economy, confirming it is in recession this quarter and that the worst was yet to come. Ultimately, it took the US PMI data to move the needle for the pound. With the broad dollar selling off on signs of slower growth and mounting disinflationary pressures, sterling rallied over a percentage point to trade at levels last seen in mid-August. Further gains were eked out following the publication of the FOMC meeting minutes, with momentum persisting overnight to send the pound back to levels that traders are more accustomed to prior to the appointment of Liz Truss as Prime Minister. In terms of economic events today, the central bank calendar will draw more attention than the data as the BoE's Watchers' Conference includes Deputy Governor Dave Ramsden speaking at 09:45 GMT, Chief Economist Huw Pill speaking at 10:30 GMT and MPC member Catherine Mann speaking at 13:45 GMT.

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