Resource sensitive currencies rise on risk-on move

15th May 2019

CAD

The loonie had a mixed day yesterday, fighting off several bouts of weakness to ultimately close only marginally stronger than it opened against the US dollar. Crude oil undid some of Monday's losses after Saudi Arabia reported attacks on oil infrastructure. Today at 13:30 Consumer Price Index data will be released. After last week's scorching hot labour market report, a strong inflation print has the potential to introduce some upside risk to the outlook for the Bank of Canada.

USD

Forget licenses to fast news sources, Trump's twitter account still dominates the market's attention this week. Yesterday's tweet included the line "It will all happen, and much faster than people think!" - which could have related to either the improvement in US growth or a wrap up in trade tensions. Regardless, the conciliatory tone sparked a mild reversion of Monday's risk-off mood. This was apparent in all markets, especially equity US equity markets that clawed back some losses from earlier in the week. This environment saw the dollar trade in the middle of the G10 currency board, taking losses against resource sensitive currencies such as AUD and NOK, but making ground against JPY and EUR. With the European single currency and Japanese yen dominating DXY weightings, the broad dollar index rose some 0.2%, fitting with the theme that the US dollar may no longer be the safe haven currency in the trade war that we saw in 2018. This afternoon we will see the release of April's Retail Sales, with a fall from 1.6% to 0.2% expected.

EUR

The absence of weakness on euro crosses surprises many who still remember the flurries of torment the single currency experienced last year in April-May when trade tensions saw rapid escalations. One of the greatest differences is that EURUSD came from a higher base last time, as it traded closer to the long-term estimate of fair value. Simultaneously, Eurozone economic data started to herald the slowdown in the second half of 2018, while the European Central Bank made a dovish shift. All of this suggests downside for the euro is limited on the short run, especially as economic data has improved recently, the decision on US car tariffs will likely be delayed by 180 days and the euro as a funding currency profits from a reversal of carry trades. Meanwhile, Eurozone Industrial

Production climbed to +0.8% in Q1, much better than the 1.2% contraction in Q4. However, the fall in new orders suggests this has mostly been caused by a buildup in inventory, which implies Q2 output data may not be that rosy. German ZEW Economic sentiment is similarly ominous, as rising uncertainty in the global trade arena clouds German business sentiments and have the ZEW fall to -2.1 in May (3.1 prior, 5.0 expected). A ray of light would be that the ZEW still points towards a stronger Ifo business climate reading. This morning's Preliminary German Q1 Gross Domestic Product reading came in bang on expectations at 0.4%, boding no surprises for the Second Eurozone Q1 GDP reading, out at 10:00 BST.

GBP

Sterling continues to sit on the back foot as a G10 currency against the dollar in a mild risk-off environment. Even though yesterday saw some of Monday's risk-off move reversed, the same cannot be said for the pound which pushes towards 3-month lows. Diaries are being cleared across London after Downing Street announced the long awaited Withdrawal Agreement will be brought forward for yet another vote in the first week of June. The agreement, which outlines how Brexit will be implemented, has already been voted down 3 times this year in the House of Commons. Now, Theresa May will hold out for cross-party talks to bear fruit in order to secure much needed Labour votes ahead of the WA's fourth running. However, Labour officials remain sceptical about how credible the government's commitments are on a customs arrangement. Should the WA pass, it is likely that May's tenure comes to a close as Brexit has been "delivered", a move which will likely open the door for a more Eurosceptic Prime Minister to take control over negotiating the UK's future trading framework. For this reason, Labour wants a more entrenched commitment from May such that the government doesn't reverse on its commitment once the WA has been passed. Should the opposition party show signs of coming around to May's position, sterling may finally get the green light it's been waiting for. However, the rally won't exhibit the full explosive effect as much is left to negotiate before the Brexit process is fully wrapped up.