

# RISK-OFF MOVE SENDS OIL AND LOONIE LOWER

MORNING REPORT: 3RD SEPTEMBER 2019



## CAD

Yesterday also saw a bank holiday in Canada, resulting in a fairly muted session. However, today's broad risk-off move has led to another slump in oil prices and the USD to go bid against the loonie. Although the move is muted compared to other risk-sensitive G10 currencies such as NOK and GBP, the loonie sits on the back foot prior to this afternoon's Manufacturing PMI release for August.

## USD

US markets return after Labour day today, and will find the US dollar as strong as ever. The US dollar index DXY reached a fresh two year high yesterday, only to rocket to even higher levels overnight as the euro and sterling gave way. Reports are circulating that US and Chinese officials have not yet agreed on a date for fresh trade talks, possibly giving further impetus to the greenback as the prospects fall for a recovery in global growth due to a relief in trade tensions. The US data calendar is eventful today, sterling with Manufacturing Purchasing Managers' Indices from Markit and ISM at 14:45 BST and 15:00 respectively. Construction Spending data will also be released at 15:00. Boston Federal Reserve President Eric Rosengren will speak about the US economy at 22:00, with audience questions expected.

## GBP

Sterling took another leg lower this morning as threats of a snap election echo around this morning's papers. GBPUSD sits at levels not seen since 2016 following PM Johnson's calls last night for a general election on October 14th should the House of Commons take control of the order paper in a potentially historic vote tonight. Firstly, speaker John Bercow needs to allow the vote to occur, but the controversial speaker has spoken in favour of the Commons being heard on this issue and is unlikely to decline. If the vote goes ahead, tonight could see the house take control of the Commons order paper, allowing them to set the parliamentary agenda for the day and push through a vote on anti-no-deal legislation. Last night Johnson said this would wreck his negotiating strategy, as seen last when Parliament ruled out feeble attempts by Theresa May to threaten no-deal, and has threatened to remove any Tory defectors from his party following the vote. If the government is defeated tonight, should Bercow allow the emergency vote to go ahead and it is passed (expected around 22:00 BST tonight), government officials have confirmed that the cabinet has approved to hold a general election on October 14th - although to put the wheels in motion Johnson would need a supermajority of the commons. For now, the only certainty is that sterling will remain volatile in the run up to a busy day in Parliament as MP's head back to Westminster following the summer recess.

## EUR

Despite the hyperventilating over sterling's weakness grabbing most currency headlines, the euro has also fallen to significant lows against the US dollar this week, and this morning's fresh bout of weakness has seen EURUSD fall to its lowest level since 2017. US dollar strength and poor regional data combined with expectations of ECB easing remain the main drivers. Italian 10 year bond yields are trading at record lows this morning, as members of Italy's Five Star party began to vote on a new coalition government with the Democratic Party. Euro data flow will be thing today, with the Producer Price Index up at 10:00 BST.

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