Euro Weekly

Overview

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GBP: The pound remained stable at the start of the week despite the continuous rumours of instability in the UK government over its draft Brexit deal, but the pound is inextricably tied to the matter of Brexit. This was a dramatic week, both for sterling and the Brexit process. PM Theresa May visited Brussels to meet with the EU team. German Chancellor Angela Merkel's demand for a deal within 24 hours as a condition of her signing added to the mounting pressure. The pound shot up after news that the draft agreement had been finalised – it is now a long wait to Sunday to see if the other European leaders will sign. There have been signs of dissatisfaction amongst EU leaders, including the dispute over Gibraltar with Spain. On the domestic front, the borrowing figures showed that the deficit rose to £8.8bn from £7.2bn last year, the biggest October figure for three years, and significantly higher than the £6.1bn that was forecast. There is a caveat however, with a Treasury spokesperson declaring it the government's best year-to-date performance since 2005. The markets weren't convinced, and the pound has been trending lower since the release of the data.

EUR: The key issue for the euro this week has been the ongoing saga of the Italian budget. The European Commission is giving a robust response but Italy is standing firm with regards to increasing public spending and reducing the pension age in open defiance of EU rules. The central currency is also under pressure due to the slowing of growth across the Eurozone. Reports that the Italian Deputy Prime Minister Matteo Salvini may be open to reviewing the government's 2019 budget gave the euro a boost. However, it's clear that the tension between Rome and Brussels is having an impact on the euro and until the matter is resolved, there may still be a measure of volatility ahead. With Italy staring down the barrel of £2tn in public debt, but looking unlikely to blink first, and the EU keen to assert their authority and maintain union within the bloc, expect this story to be ongoing and meanwhile the euro may be paying the price for a lack of closure on the matter.

USD: The dollar faced a slowdown last Friday after comments from Federal Reserve Vice Chairman Richard Clarida. During an interview with CNBC, Clarida suggested a faltering global economy, vindicating the Fed's dovish monetary policy. President Trump reiterated his wish for lower interest rates, but to date there is no indication that the Fed is looking to adjust its course to accommodate these wishes. Investors have been moving towards safe haven currencies including the dollar after equities and key commodities including oil showed a decline. US technology stocks are becoming a concern, causing anxiety about burgeoning US corporate debt. The dollar continues to benefit from the windfall of the significant tax cuts implemented by the Trump administration and high employment, but there is a sense that in the long term, there may be a slowing of growth across the globe and the dollar will not be immune. A report from Bloomberg suggests that in the long term, the greenback may suffer as a result of the slump in oil prices. It may add to other factors, such as a challenging economic outlook and ongoing political turbulence, and accelerate the trend of investors reallocating investments into money-market instruments, which has proven in the past to be a sign of dollar weakness.

CAD: The Canadian dollar has been fairly weak against USD of late, as the depressed oil market weighs heavily on a currency that is inextricably linked to the commodity. There is bearish pressure on the Loonie and it is struggling to respond to the current market conditions. There are concerns that the revised NAFTA deal, the USMCA, may struggle to pass through the Democrat-led Congress. The Bank of Canada (BoC) unveiled the 2021 review of the monetary policy framework, with a focus on unconventional policy and heightened concerns about the zero lower bound. Canada's Consumer Price Index (YoY) data, due out today, is currently forecast at 2.2%, well within the bank's target of 1-3%. Should we see this rise significantly beyond the forecast, we can expect the central bank to up interest rates to cool the economy and manage inflation. These higher rates may tempt foreign investors, and we could expect to see the Canadian Dollar to rise accordingly.

AUD/NZD: Both the Australian and New Zealand dollars have been having tough times of late. This week, the Aussie did make some gains on the US dollar towards the end of the week as Americans headed off for the Thanksgiving break, but could not counter the rise of the pound and the euro after the draft Brexit deal was agreed. Both currencies have been hit hard by a range of factors, including the US-China trade war and activities elsewhere in the world, but there are signs that a recovery may be on the horizon. For the New Zealand dollar, the future looks bright. Despite some tough times, NZD has outperformed all G10 currencies over the past four months. A strong set of GDP, CPI and jobs data has been priced in, and together with a less dovish central bank, currently has the edge over its Australian currency, which is weighed by political risk.