

12th April 2019

Flextension granted

May's Easter egg hunt turns into a Halloween nightmare

- EU27 offer the PM a “flextension” up to 31st October
- ECB acknowledge a weakening economy
- FED leave door open for more rate hikes if economy improves

GBP: Another date for your Brexit diary

On Wednesday we heard from EU's Tusk that the member states had agreed to a new leave date for the UK of 31st October, with a clause which enables the UK to withdraw earlier should parliament manage to agree a deal. Although Theresa May has been seen to align with Jeremy Corbyn, we are yet to hear of any significant development in talks. 2019 has seen the GBP pairs take a reactive stance as the Brexit risks have oscillated, however this week's developments failed to stimulate the pound against major currencies with GBPEUR hovering around the 1.1600 handle and GBPUSD around 1.3070.

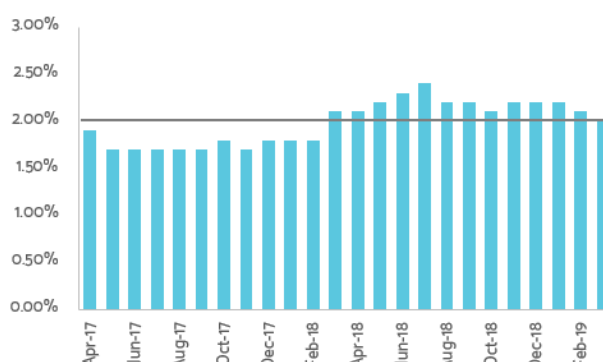
EUR: ECB see rates remaining the same through 2019

As expected, we saw the ECB keep interest rates at record lows, with the benchmark interest rate at 0% and the deposit facility at -0.40% which means banks are charged for leaving money with the central bank rather than lending it. President of the ECB Mario Draghi warned that data gathered by policymakers in recent weeks had confirmed “slower growth momentum” in the euro zone. Draghi said that it was “too early” to decide on the terms surrounding the TLTROs (cheap loans to eurozone banks) and that there would need to be more analysis before any implementation of “tiering” for its negative interest rates (so that some banks excess reserves are exempt from the lowest rate). These instruments are a tool for the ECB to support banks who, as a result of negative interest rates are less profitable and therefore less able to lend to the wider economic, harming economic growth. Although the dovish ECB statement weighed on the single currency briefly vs the USD, the Euro ends the week in the green @ 1.1267.

USD: Positive data from the US

Adding to Wednesday's busy calendar was a series of data releases from the US and the release of the latest FOMC minutes. Amongst the data we saw a mixed reading from the Consumer Price Index, which the Federal Reserve use to identify current inflation levels in the US and a key indicator

US inflation remains tame: Core CPI Index



for interest rate policy. We saw consumer prices over the period of March increase the most in 14 months (1.9%). This was largely stimulated by an increase in energy prices following the recent rally in oil. The core price index (which removes the volatile components from the headline number including food and energy prices) remained stable at 2%, supporting the Fed's current promise to "be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate". It's also worth noting that some policymakers did not rule out another increase in interest rates this year, citing the strong labour market as a potential catalyst of increased consumer spending to stimulate economic growth in the months ahead.

The week ahead

Tuesday

- **UK Wage Growth / Unemployment Data: watch GBP/EUR, GBP/USD**
 - 9.30 AM: UK ILO Unemployment Rate
 - 9.30 AM: UK Average Earnings

Wednesday

- **UK key inflation Data: watch GBP/EUR, GBP/USD**
 - 9.30 AM: UK Consumer Price Index
 - 9.30 AM: UK Producer Price Index
 - 9.30 AM: UK Retail Price Index
- **European Inflation Data: watch GBP/EUR, EUR/USD**
 - 10.00 AM: EU Consumer Price Index

Thursday

- **European Manufacturing Data: watch GBP/EUR, EUR/USD**
 - 8.30 AM: Germany Manufacturing PMI
 - 9.00 AM: European Manufacturing PMI
- **UK Retail Sales: watch GBP/EUR, GBP/USD**
 - 9.30 AM: UK Retail Sales
- **US Jobless Claims: watch GBP/USD, EUR/USD**

Friday

Financial markets will be closed for Good Friday

A short week ahead due to the upcoming Easter holidays, Wednesday and Thursday morning have several key releases that may impact the major pairs. Manufacturing data has suffered recently as global uncertainty weighs on demand, with a significant impact on Europe's largest economies. Retail numbers from the UK on Thursday will also be in focus to eye consumer spending habits during a backdrop of Brexit uncertainty.



Rickie Vale
FX Dealing

rickie.vale@sabcf.co.uk
0207 469 4116