Weekly Market Update

sab Corporate Finance

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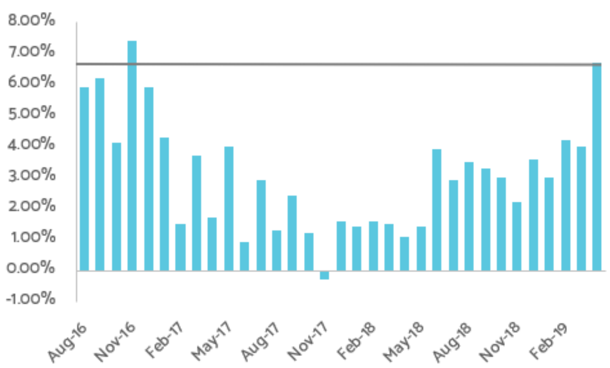
Is the UK retail sector set to regain the Iron Throne?

- **UK inflation remains below 2% target, retail flourishes**
- **EUR gives up its recent gains**
- **US trade deficit narrows**

GBP: Higher fuel prices offset by lower food costs

Despite the shorter week due to the upcoming Easter holidays there was no shortage of data releases. On Wednesday the UK Consumer Price Index (CPI) was released at 1.9%, the third consecutive reading below the BOE's target. Although we saw a 1% rise in costs at the fuel pumps, lower than expected food prices resulted in a lack of upward price pressure which will give policymakers room to keep interest rates on hold pending a resolution of the ongoing Brexit crisis. Growth in house prices slowed to 0.6% in February on the previous year, the slowest rate since September 2012, with the worst performing house prices in London falling 3.8% which is the largest drop since 2009. Conversely, retail sales released on Thursday showed an increase of 6.7%, the highest since November 2016, in a sector which has seen a significant downturn with the collapse of several retail giants on the UK high street. Brexit headwinds are set to be muted over the coming weeks which could provide some short-term support for the UK economy and consequently GBP volatility is set to remain low with implied volatility (the financial market's forecast of likely movement in currency pricing) at the lowest level since December 2016. GBP ends the week flat against the EUR around 1.1550 and ends the week lower against modest gains in the USD at 1.3010.

UK shoppers dig deep: Retail Sales YoY



EUR: Weak data from the Eurozone

On Wednesday we also saw inflation data releases from the EU, with prices rising 1.4% in March on the year down from 2.2% in October of last year. The Core Consumer Price Index (which removes volatile components such as food and energy) was also down from 1.1% in January to the latest reading 0.8%. This data supports the ECB's recent tone to keep interest rates on hold and introduce supporting instruments to the economy, such as TLTROs. Thursday saw the release of key manufacturing data, a sector which has struggled recently on the back of global uncertainty impacting demand. The EU manufacturing PMI missed forecasts with a release at 47.8 for April, with data for Germany (Europe's largest economy) missing estimates at 44.5. The EUR spent the week on a stronger footing rallying against the USD to a high of 1.1323, however the rebound lost steam amidst the poor European data to end the week lower, currently at 1.1252.

USD: US trade deficit narrows

Released on Wednesday, the US trade deficit narrowed to $49.4 billion in February, the lowest since June 2018. The report helped to boost forecasts for GBP growth in Q1 2019, with the Atlanta Fed “GDPNow model” (a model which provides a running estimate of real GDP growth) forecasting a 2.4% growth. The narrowing deficit was largely due to a 28.2% decrease in the US goods deficit with China as exports surged. The USD strengthened vs the EUR on Thursday after spending the week on the back foot amidst increased risk appetite on optimism surrounding the US-China trade deal.

The week ahead

Monday

Financial markets will be closed for Easter Monday

Tuesday

- **US Manufacturing, watch GBP/USD, EUR/USD**
    - 15.00: Richmond Fed Manufacturing Index

Wednesday

- **ECB Report, watch GBP/EUR, EUR/USD**
    - 09.00: ECB Economic Bulletin

Thursday

- **US Jobs Data, watch GBP/USD, EUR/USD**
    - 13.30: Jobless Claims
- **US Manufacturing, watch GBP/USD, EUR/USD**
    - 13.30: Durable Goods Orders
    - 16.00: Kansas Fed Manufacturing Activity

Friday

- **US Q1 GDP Release, watch GBP/USD, EUR/USD**
    - 13.30 : GDP Annualised (Q1)

Another short week due to the Easter holidays and a lighter economic calendar ahead. From the UK, the Brexit timeline is muted during the current parliamentary recess. Focus towards the end of the week will be on jobs data from the US to eye if the tight labour market will persist and if so if wage growth creates inflationary pressure. The most significant item on next week’s calendar will be the much-anticipated US Q1 GDP release. The market will look to confirm recent forecasts that the US economy grew at a rate above 2% in the first quarter of the year.

Rickie Vale
FX Dealing
rickie.vale@sabcf.co.uk
0207 469 4116