

10th May 2019

A busy week: Royal arrivals, football wins, tariff increases

- UK European parliamentary election campaigns begin
- EU service sector indexes beat expectations
- US-China trade war heats up

GBP: UK Q1 GDP in line with expectations

Last Friday saw the Conservative party lose a significant number of seats during local elections, losing 1,330 councillors. This is in line with recent polls which highlight the decreasing confidence in the current government following the past year's Brexit turmoil. The gains were realised elsewhere across a number of parties, but in particular the Liberal Democrats who won 705 councillor seats. If anything, these local elections have demonstrated clearly why there was little appetite to trigger a general election in the last 6 months which would most likely fail to elect a majority government.

The EU parliamentary election campaigns begun this week, with UK residents receiving invites to vote on 23rd May from their local polling station. This signifies an event which many political figures had attempted to prevent, however having failed to pass a withdrawal agreement in time, the UK is now obliged to take part. The major political parties will be up against the newly formed "Brexit Party", who have a single mandate to leave the EU and prevent a second referendum from happening.

The UK GDP figures for Q1 released on Friday, were inline with expectations with a QoQ growth of 0.5% and YoY growth of 1.8%. Brexit worries were seemingly balanced by a tight labour market, increasing wages and a rebounding retail sector. Another force which most likely added to the figure was increased demand from manufacturers to secure goods prior to the expected Brexit deadline, resulting in stockpiling which we could see unwind the quarters to follow.

The pound sterling has spent the week on a softer footing, against the EUR it currently sits below the 1.16 handle. Versus the USD the pair attempts to hold the 1.30 level following Q1 GDP release.

EUR: Services in Europe point north

Services Purchasing Managers Index (PMI) for April released on Monday indicated strength amongst Europe's key economies. The index for the EU beat expectations at 51.5 and also from Germany at 55.7. Whilst manufacturing has weighed on EU economies, the services sector has begun to show welcome signs of recovery during 2019. Retail sales figures also beat expectations in the EU at 1.9% for March, although far from confirmatory, this follows strengthening retail figures released from the UK. With tight labour markets and increasing wages, are consumers digging deeper even with a gloomy economic backdrop?

USD: Trump increases tariff rate for China

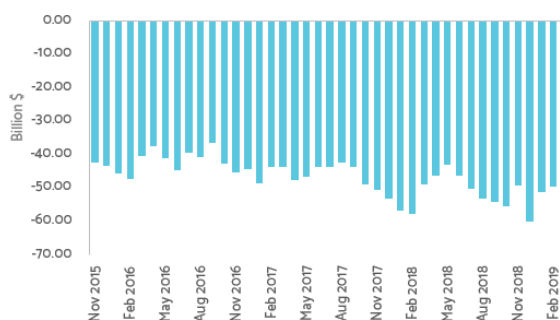
In contrast to optimistic tones surrounding the US-China trade war, it appears to have taken an unexpected turn today as the US announced an increase in the tariff on 200bn USD of Chinese imports from 10% to 25%. This follows China's attempt to back track on previous commitments. Although this does not rule out a trade deal completely, the trade war has been a significant global risk and any uncertainty can throw globally exposed economics off balance.

US Produce Price Index releases on Thursday indicated modest gains in April, with an increase of 0.2% following a strong reading in March of 0.6%. The index measures the average fluctuation in prices received by domestic producers for their output.

On Thursday we saw the release of the US Trade Balance which indicated that the US goods and services deficit with its trading partners widened in March to 50 bn USD as US companies imported more from abroad than they exported. A significant proportion of this came from imports of energy and crude. The trade balance figures are largely in focus as Trump's trade war mandate focuses on reducing this deficit.

Although the trade war progression seems to have stalled (often resulting in "safe haven" USD buying), the USD continues to weaken as it retraces some recent gains, allowing the EUR to regain some lost ground with EUR/USD trading up to 1.1232 as of writing.

US Trade Balance: The "Last War" for Trump?



The week ahead

Tuesday

- 07.00: German Consumer Price Index (Apr)
- 09.30: UK Unemployment Rate (Mar)
- 09.30: UK Average Earnings (Mar)
- 10.00: EU Industrial Production (Mar)
- 10.00: Germany Economic Sentiment (May)
- 10.00: EU Economic Sentiment (May)

Wednesday

- 07.00: Germany Q1 GDP
- 10.00: EU Q1 GDP
- 13.30: US Retail Sales (Apr)
- 14.15: US Industrial Production (Apr)

Thursday

- 13.30: US Initial Jobless Claims (May 10)

Friday

- 10.00: EU Consumer Price Index (Apr)

On Monday the market will look towards UK wage data to confirm the upward trend in wage growth as a result of the tight labour market. Sentiment indicators from the EU and Germany will provide an important gauge during a fragile time for European economies. On Wednesday Q1 GDP releases from Europe will test the firmer trend seen in the UK and US, to see if global trade worries resulting in increased orders/stockpiling provide support for Q1 growth. Towards the end of the week, the EU CPI index an important measure of EU inflation will take focus, following the last reading where the core index YoY peaked at 1.2% the strongest since September 2017, was this merely a blip on the radar?



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