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FX Moves

GBP

Sterling, along with other risk sensitive currencies, dropped against the dollar amid broad risk-off trading in markets yesterday. However, the 0.41% drop in GBPUSD was dwarfed by the collapse in EURUSD. This resulted in a 0.83% retracement in GBPEUR, reversing part of the 2% slump seen in the aftermath of last Thursday's BoE meeting. The limited move in the pound, despite negative GDP data out of Q1 in yesterday's session, suggests GBPUSD may be travelling through more resistance at current levels as much of the growth risk and dovish Bank of England pricing has been factored in. However, upside may also be difficult to come by without an improvement in the economic data relative to expectations. This is evident in today's price action, with the pound trading in extremely tight ranges despite a rebound in risk sentiment this morning. Despite the concerning economic backdrop in the UK, the government are yet to outline further support measures for the UK consumer. Papers this morning concentrate on comments from Downing Street that further stimulus will be released in the coming months, a step back from the previous commitment of the coming days.

EUR

The single currency snapped recent support levels to drive over a percentage point lower against the dollar yesterday. With just January 2017's low the next level of support before parity, the break lower emboldened calls that the single currency is likely to test the parity level for the first time in 22 years in the coming weeks. The likelihood of this is increasing as markets quickly shift their attention from how monetary policy will tackle higher inflation towards global growth concerns. The nasty mix of high inflation and low growth is most apparent in the eurozone, largely due to its proximity and economic sensitivity to the war. This therefore leaves the euro as highly exposed to stagflation risk-off trading. Today, however, the market risk environment is more supportive following a turnaround in US equity indices towards the back end of the session, which mapped over into positive momentum in the APAC session. Gains in the single currency have been limited, however, as concerns over economic fundamentals remain.

USD

Yesterday's risk-off trading session largely filtered into the greenback, which in our view remains the cleanest haven expression in the FX space at present. The combination of risk-off conditions and reduced US Treasury yields, again because of haven demand increasing, also led USDJPY to drop over a percentage point in the session. But, we view this move lower as limited given still wide yield differentials. Overnight, commentary from Fed Chair Powell helped markets take some risk off of the table as he stated that the Fed is unlikely to move in larger increments than 75 basis points. While this isn't news from the Chair, who back in the last press conference said the Committee wasn't actively discussing this option, it helped trim some bets of quicker tightening that have re-emereged following the stronger than expected core services CPI print on Wednesday. The comments from the Chair helped Asian equities rebound overnight, which in turn have set a constructive tone for FX marketing this morning. However, the retracement is limited as the markets concerns over the global macro backdrop are yet to abate. Along with the performance in US equities, commentary from Fed officials on either side of the spectrum will determine how FX markets trade. At 16:00 BST, Fed dove Neel Kashkari is set to speak on energy and inflation, while hawk Loretta Mester is set to speak on monetary policy at hawk Loretta Mester is set to speak on monetary policy at 17:00 BST. Earlier this week, Mester eluded to the possibility of a 75 basis point hike. Her conviction over this scenario may have increased given Wednesday's CPI report.

CAD

The loonie weakened slightly against the US dollar on Thursday, a day that saw all G10 currencies except JPY fall against USD. CAD briefly touched its weakest level against its US counterpart since November 2021, making the market rate the most favourable one for USD sellers in over a year. This came amid volatility in equities, which closed red in most regions and bounced around during the day. The S&P 500 stock index closed -0.13% lower, although options-implied volatility fell, which is an unusually mixed risk signal for the equity market. Oil was up 1%, which is typically a tailwind for the loonie, although this relationship has started to weaken in recent times; a development also mentioned by Bank of Canada Deputy Governor Toni Gravelle yesterday at a speech he gave to the Quebec economists' association. Bond yields fundamentally supported yesterday's weaker loonie, with Canadian yields falling 9.4bps at the 2Y and 9.2bps at the 10Y tenor, while US yields fell by a couple fewer basis points. Canada's economic calendar is empty this morning.

Today's Headlines

Reuters: Wall Street 'fear gauge' offers no silver lining as bear market looms

A surprising lack of panic in the U.S. stock market as measured by Wall Street's "fear gauge" is keeping some investors from calling a bottom on an already bruising equity selloff. Since 1990, the Cboe Volatility Index (.VIX) has hit an average level of 37 at market bottoms, compared with its most recent level of around 32. Some investors believe that means stocks are yet to see the crescendo of fearful selling that has sometimes accompanied past market bottoms, even though the S&P 500 has already fallen nearly 20% from its record high, a level that would confirm a bear market.

Bloomberg: Sunak Says Brexit Deal Causing Harm, Urges EU to Be Flexible

UK Chancellor of the Exchequer Rishi Sunak said the Brexit

UK Chancellor of the Exchequer Rishi Sunak said the Brexit settlement in Northern Ireland is causing economic and political harm and called on the European Union to be flexible, comments likely to be seen as an attempt to publicly align himself with Boris Johnson after reports of a rift. Johnson's government is weighing whether to scrap parts of the deal it signed with the EU related to Northern Ireland, arguing it is undermining the region's peace agreement by fueling instability, while also disrupting commerce.

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