# Foreign Exchange Commentary – Mid Day Remarks

## March 19, 2019

- **Dollar Slides Again Ahead of Federal Reserve Update**
- **Euro-Zone Wage Growth Stayed Steady at End of 2018**

## Commentary

### The U.S. Dollar

The U.S. dollar was in the red early Tuesday, looking to add yet another down day to its recent record and continuing to struggle for a new driver, ahead of the Federal Reserve's monetary policy update on Wednesday. The ICE U.S. Dollar Index was down 0.2% at 96.361. The gauge has fallen seven out of the last eight sessions, according to Bloomberg. The economic calendar is light again, with only rescheduled January factory orders due at 10 a.m. Eastern, while the Federal Reserve's monetary policy meeting begins today, culminating in Wednesday's interest-rate decision. Investors will be watching out for forward guidance and what many analysts expect to be further dollar-negative dovishness on the part of the central bank. The British pound retraced some of Monday's losses, last trading at $1.365, compared with $1.3250, helped higher by better-than-expected economic data. The U.K.'s unemployment rate dropped to 3.9%, and monthly average earnings held steady. "U.K. politics might be in chaos, but at least the economy is ticking along nicely," wrote David Madden, market analyst at CMC Markets. On Monday, the speaker of the British House of Commons said Prime Minister Theresa May's government could not propose a vote on the exact same Brexit deal that was rejected by lawmakers last week, thereby blocking a vote scheduled for Tuesday. What happens next is anybody's best guess, but the U.K. is still scheduled to leave the European Union on March 29 so far, and there is no deal government trade and movement of people in place. The euro was also slightly stronger, buying $1.1354, versus $1.1341 late Monday. During the Asian trading session, minutes from the Reserve Bank of Australia confirmed its commitment to a neutral stance, which squashed fears over impending monetary easing for now. The Australian dollar last fetched $0.7096, slightly down from $0.7105 late Monday in North American trade.

### Summary

- Canadian dollar drops to C$1.3260, lowest since March 1st.
- Mexico peso sharply stronger testing 19 per one U.S. dollar.
- U.K. gains more jobs than forecast, ILO unemployment rate falls to 3.9%; pound sterling relatively unaffected above $1.3260 as currency rallies on jobs news; Rightmove house prices gain 0.4% month-over-month.
- Japanese yen remains above 111 per one U.S. dollar as Japan industrial production falls 3.4% month-over-month while trade balance improves to + 116.1 JPY (billion).
- German ZEW indexes both better than forecast at -3.6 on economic sentiment and 11.1 on current conditions.
- ECB not happy with potential Deutsche/Commerzbank merger.
- Euro-zone wages grow at faster pace than expected.
- U.S. durables good orders gain 0.3%, factory orders grow 0.1% month-over-month.
- Australia's 3-year bond yield drops below RBA cash rate for the first time since 2016.

### Euro-Zone Wage Growth Stayed Steady at End of 2018

The pace of euro-zone wage rises held up as 2018 drew to a close, a boost to hopes that solid consumer spending will help avert a deeper economic slowdown this year. The euro-zone's jobs market has stayed strong despite a weakening expansion in output, with the jobless rate falling to 7.8% in December from 8.6% a year earlier to reach its lowest level since October

2008. There are other signs that workers are becoming a scarcer commodity in some parts of the euro-zone and in some industries. Figures released Monday showed the job-vacancy rate rose to 2.3% in the three months through December from 2.1% in the previous quarter, its highest level since records began in 2006. And that tightening jobs market is supporting wages. The European Union's statistics agency Tuesday released figures that showed pay per hour during the three months through December was up 2.3% on a year earlier, in line with the rate of growth during the third quarter. Consumer prices rose at an average annual rate of 1.9% in the fourth quarter, so euro-zone workers saw their real wages rise during that period. That's good news for the eurozone's economic prospects this year. Weakening demand for its exports was behind the currency area's slowdown last year, and that isn't expected to reverse in 2019 as China and the U.S. slow. Higher spending by eurozone consumers is therefore key to growth, and more workers earning higher wages makes that more likely. That should also support inflation, although the measure of wage growth preferred by the European Central Bank--compensation per employee--slowed in the fourth quarter, to 1.7% from 2.3%. Earlier this month, ECB policy makers paused plans to remove their stimulus measures and announced that they will provide a fresh round of cheap loans to banks in September and won't raise their key interest rate this year.

## Gold Climbs Ahead of Fed Statement

Gold prices rose Tuesday, supported by a weaker dollar as analysts looked ahead to Wednesday's statement from the Federal Reserve. Gold for April delivery, the most-active futures contract, climbed 0.5% to $1,308.40 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have fallen since hitting a 10-month high in February, hurt by greater risk appetite among investors moving back toward stocks. Risk seeking tends to limit demand for the haven metal. A slightly stronger dollar has also hurt gold by making it more expensive for overseas buyers. But on Tuesday, the Dollar Index, which tracks the dollar against a basket of 16 other currencies, fell 0.1%. Investors were looking ahead to Wednesday's Fed statement, as the central bank's cautious stance on interest rates has renewed faith in the U.S. economic expansion and supported riskier assets like stocks. At the same time, the Fed's patient stance regarding interest-rate increases and mixed economic data have kept Treasury yields low, a positive for gold because it struggles to compete with yield-bearing assets when rates rise. "Gold is somewhat firmer this morning in anticipation of a dovish Fed," Commerzbank analysts said in a note. Some analysts think the metal is poised to rally again like it did last quarter if fears about slowing economic growth drag down stocks and other risk assets. Elsewhere in precious metals, most-active silver futures added 0.7% to $15.435 a troy ounce. Platinum climbed 2.4% to $854.10, while palladium rose 1.2% to $1,558.30, with the silvery-white metal used to filter emissions in gasoline car engines hitting a new record as analysts project continued supply shortages. Among base metals, most-active Comex copper futures for May delivery climbed 0.7% to $2.9305 a pound. The metal has climbed about 11% for the year on optimism about U.S.-China trade talks and Chinese stimulus efforts to curb an economic slowdown in the world's largest consumer of industrial metals used in construction and manufacturing. "Chinese demand growth is expected to pick up over the coming weeks [and] the metals markets appear to be getting hopeful that it is more than just seasonal," Citigroup analysts said in a note. "Our recent meetings with southern Chinese commodity investors, physical traders and scrap processors concluded with broad-based optimism on copper prices, thanks primarily to conviction on Chinese policy stimuli." Elsewhere in base metals, aluminum for delivery in three months added 0.5% to $1,930.50 a metric ton on the London Metal Exchange. Zinc rose 0.6% to $2,799, tin edged up 0.3% to $21,245, nickel climbed 1.6% to $13,230 and lead fell 0.3% to $2,034.50.

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