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Foreign Exchange Market Highlights

Good Morning,

The dollar is broadly stronger against the G10 currencies this morning as the White House and Congress have reached a new budget deal. The new budget deal will suspend the debt ceiling for an additional two years which allows Republicans to secure additional funds for defense and Democrats to secure funds in favor of domestic spending. Treasury yields rallied in response, straightening the yield curve as the spread between the 3-month and 10-year treasury yields is now +4 basis points.

Across the pond, the UK conservative party leadership named Boris Johnson as the next Prime Minister of the UK this morning. Johnson is known as a hardline Brexiteer and pledges to leave the European Union (EU) with or without a deal at the October 31st deadline. The GBP currently trades just above 27-month lows due to the increased probability of a no-deal Brexit in the coming weeks. If the UK leaves the EU without a deal in place, the results could be impactful for the UK economy. European equities rallied following his selection, while the pound remains sluggish as Bank of England policymaker Michael Saunders signaled that he is in no rush to raise rates due to Brexit uncertainty.

In other central banking news, we saw the euro fall 0.25 percent overnight as it is now trades at its 7-week low ahead of the European Central Bank meeting on Thursday. The markets are currently pricing in a 27 percent chance of a 10 basis point cut on Thursday, but most analysts are expecting a rate cut at the September 12th meeting. The euro trades only 0.6 percent higher than YTD lows. Elsewhere, the National Bank of Hungary is expected to keep rates steady today as CPI YoY came in at 3.4 percent, within the 2-4 percent target range of the economy. The NZD has lost almost 1 percent this week as the Reserve Bank of New Zealand has stated they will revisit unconventional monetary policy, signaling to markets that the central bank could keep rates low for a long time in the near future. Markets are pricing in an 86 percent probability of a 25 basis point rate cut at the August 7th meeting.

In other news, safe-haven assets including the Swiss franc and Japanese yen have declined this week as progress has been made on a number of issues, including US-China trade tensions, the UK leadership, and the US debt ceiling. President Trump met with CEO's of the biggest US technology companies to begin working on a plan to restart business with Chinese technology giant, Huawei Technologies. President Trump took this action in response to the good faith shown by Chinese Leadership over the weekend. Beijing started developing a plan to focus on buying more US agricultural goods, a concept President Trump has been very vocal about. This marks a turning point in US-China trade talks as markets see real progress underway, but the two major world economies are still far from reaching a lasting solution.

Have a good day!

Sam Selarnick - Pittsburgh

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