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Foreign Exchange Market Highlights

Good Morning!

Britain's Prime Minister, Theresa May, is expected to confirm she will not alter her course on Brexit despite the fact that her Chequers plan was rejected by EU leaders. The summit in Salzburg, Austria resulted in May looking isolated after leaders told her to re-design her plan, and gave her only one month to return with new ideas. May continues to say her country is preparing for a no-deal outcome as she enters into a politically challenging period, with Conservatives preparing for their annual conference at the end of this month. She is hearing louder calls to jettison her vision of what the future trading relationship with Europe should be, and many are speculating that some in the party will attempt to replace her. The British pound, not surprisingly, is a bit weaker this morning. The EUR/GBP cross, meanwhile, shot higher and is approaching key levels that could suggest a broader upside move.

Realized volatility for the euro fell to its lowest levels in a month earlier this week and global volatility remains mild as trade concerns outweigh central bank activity. Going into next week's Federal Reserve meeting, traders are taking a cautious approach to the euro, taking note that the week-to-come could set the stage for the unit's move over the last quarter of 2018. The Fed's September 26th meeting overlaps with lots of data being released on both sides of the Atlantic, plus ongoing speeches by policymakers will fill the news cycle. Many traders are betting the U.S. rate hike cycle is reaching an end, or a long pause, and many are less concerned about the Italian budget – set to be presented on September 27 – weighing on the euro. All of this would help the euro gain some steam. However, many market participants fear that Fed Chairman Jerome Powell could set an unexpectedly hawkish tone next week, and that trade concerns could ratchet even higher. Events such as these would give the greenback a strong boost.

The Canadian dollar got a boost and is heading for a second straight week of gains after the nation's retail sales excluding automobiles beat expectations. Inflation came in as predicted, showing a decline in headline inflation. Overall, the news has traders now expecting a more hawkish tone from the Bank of Canada.

The Japanese yen dropped to a two-month low with investors showing less concern about the U.S.-China trade war, sapping demand for safe haven currencies. The Bank of Japan signaled that it is maintaining its quiet tapering program by cutting its purchases of bonds due in more than 25 years. Despite this, the yen weakened broadly against all G-10 currencies on Friday.

Have a Great Day!

Thomas Miller, Indianapolis

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