

FX Daily: Italian politics to remain a low impact story

Italy's Prime Minister Giuseppe Conte won a confidence vote in the Senate but fell short of an absolute majority. Now, he's looking for allies. But today, the focus for markets shifts to Biden's inauguration



Italian Prime Minister, Giuseppe Conte

📌 USD: Security concerns to dominate inauguration day

The new Treasury Secretary, Janet Yellen, touched upon FX themes in her Senate speech yesterday as she pledged to keep fighting currency manipulation among US trading partners (the Treasury [named Switzerland and Vietnam as FX manipulators](#) in December) and claimed she will not deliberately seek a weaker dollar. That was not enough to support the USD yesterday as equities staged a rally with the earnings season gathering pace. Today, there are no data releases worth highlighting in the US and the focus will be on Joe Biden's inauguration ceremony. Authorities have warned of possible armed protests across the country, which might cool the markets' upbeat mood (stock futures point to another positive open), but the muted market reaction to the Capitol riots on 6 January suggests most assets – including the dollar – may end up being only marginally influenced by any episode of social unrest today.

📌 EUR: Italian government alive, but reshuffle still possible

Italy's Prime Minister Giuseppe Conte won a confidence vote in the Senate yesterday which

allowed his government to survive for now. Still, he fell short of an absolute majority, which means that this government crisis is not over. Conte's preferred path at this stage is to look for to secure a stable majority, possibly offering some cabinet roles in exchange. Should this option prove unviable, he may still resign as PM: the President of the Republic would then start multi-party talks and give the mandate to a new PM (which could be Conte himself). In other words, uncertainty on the Italian political scene is set to remain with us for longer, but early elections remain unlikely, which puts a cap on Italian yields and should limit any risk premia build-up in the euro.

GBP: More Bailey's remarks to watch today

Cable looks set to re-test 1.3700 as a loss of USD momentum is offering additional support. Bank of England Governor Andrew Bailey will participate in a panel this afternoon (1700 GMT), although the FX impact should be limited as GBP already benefited from a substantial re-pricing of negative interest rate expectations last week.

CAD: A change in the BoC's rhetoric is unlikely

The Bank of Canada will announce monetary policy today, shortly after the release of the December CPI numbers – which should see headline inflation stabilise around 1.0% and should have limited implications for the Bank of Canada's decision. Since the 9 December meeting, the contagion picture in Canada (and across the world) has worsened, but the negative impact of new restrictions on the economic outlook has been offset by more tangible prospects of a vaccine rollout. In turn, we don't expect the BoC to deploy or announce additional easing today. At the same time, Governor Tiff Macklem will not have any reasons to turn more hawkish and should keep the lower-for-longer pledge at the centre of his policy message. We expect the impact on the Canadian dollar to be contained.

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