Daily Insight

Group Economics
Macro & Financial Markets Research

12 April 2017

Financial Markets Research Team
Nick.kounis@nl.abnamro.com
Tel: +31 20 343 5616
nick.kounis@nl.abnamro.com

Labour market to keep BoE on hold

UK Macro: Labour market softens – The labour market in the UK looks to be deteriorating, a trend that could dissuade the BoE from hiking the policy rate despite the surge in inflation. Claimant unemployment jumped by 25.5K in March, following a decline of 6.1K in February (revised down from -11.3K). This breaks a run of three successive monthly falls, which had followed several months of rising unemployment. Meanwhile, the pace of employment growth also seems to be slowing, with the economy gaining 39K jobs in the 3-months to February, compared to 92K in January. Wage growth meanwhile remains subdued. Average earnings rose 2.3% 3m av. yoy, unchanged from January. This leaves real wage growth at zero given that inflation is running at the same pace. This has two implications for monetary policy. First of all, with the labour market softening and real wage growth stagnating, consumer spending is likely to soften, keeping overall economic growth moderate. Second, underlying inflationary pressures from the labour market are likely to remain weak. This should provide comfort that once the impact of rising import prices (due to the fall in sterling) fades, core inflation should slow again. Overall, we continue to expect the BoE to keep interest rates on hold in the coming months. (Nick Kounis)

Global FX: Temporary Upward pressure on the yen - In the period 1 January to 11 April 2017, USD/JPY moved within a 110-115 range. USD/JPY is highly sensitive to developments in the spread between US real yields and Japanese real yields. Since the start of 2015, USD/JPY and the spread have moved in tandem. Investor sentiment has always also been a crucial driver as the yen is considered to be a global safe haven currency. Recently a deterioration in investor sentiment (reflecting geo-political concerns) has resulted in a strengthening of the yen across the board. The French presidential elections are also now come into the focus of investors. Developments in the options market suggest that investors have started to hedge the possibility of an unfavourable outcome in the second round of the Presidential elections. This has resulted in higher demand for the yen versus the euro. If the outcome of the French Presidential elections or geo-political developments were to result in a sharp deterioration of investor sentiment, USD/JPY could drop to100 in the near term. However, we do not expect this. If investor sentiment recovers then the yen will likely fall again. Furthermore, the BoJ will likely try to avoid a sharp strengthening of the yen. Overall, we do not expect yen strength to be sustained. (Georgette Boele)