

CNY stability helps the carry story

A US-China trade deal could include a Chinese commitment to yuan stability. But what does that really mean? Stability against a basket of currencies or stability against the dollar?



Source: Shutterstock

USD: Jobs data should straighten out the money market curve

Today's focus will be on the March jobs data, where a rebound to 160-170k is expected after a government shut-down distorted 20k reading in February. On the all-important average earnings figure, our team are looking for a new cycle high of 3.5% YoY. If seen, expect the market to further re-price the US money-market curve, which late last month had priced in 30bp of Fed cuts this year and has now scaled that back to 15bp of easing. Such a US jobs report should prove slightly positive for the dollar against the low-yielders (\$/JPY to 112.20), but probably good for risk assets in general – confirming that US domestic demand should stay strong and allaying recession fears. Unless we get a nasty surprise on non-farm payrolls, we would favour DXY heading back to the 97.70 area.

EUR: Euro rates are on the floor now

The minutes to the ECB March meeting did reveal some discussion over tiering of deposit rates. While we think this won't be an issue until the June meeting at the earliest, it does suggest some mixed implications for the EUR: i) tiering of deposit charges may only be seen if the ECB were to

cut rates again (EUR negative), but ii) EUR money market rates, (e.g. two year swap rates at -0.35%) are already on the floor, so unless the market prices in fresh ECB easing, rates won't fall further (EUR neutral) and iii) help to banking sector profitability could trigger a re-rating of this sector (Euro Stoxx banks index to break above 100?) and lead to fresh equity inflows (EUR positive).

With the US-China trade relations seemingly on the mend, we think EUR/\$ is quite supported at 1.1200.

GBP: A winding path to a deal

It shouldn't be a surprise that PM Theresa May's discussions with Jeremy Corbyn are not leading to an immediate break-through. But parliament does not want a 'no-deal' Brexit and the EU (Tusk's comments) suggest a flexible Article 50 delay will be on offer. We favour this tortuous path to a deal leading to some eventual GBP gains, with 1.2950/3000 remaining the lower end of the near term range for Cable.

CNY: When stability really does mean stability

It has been suggested that part of the forth-coming US-China trade deal could include a Chinese commitment to yuan stability. But what does that really mean? Stability against a basket of currencies or stability against the dollar? Well the last month would favour the latter interpretation, where USD/CNY realised volatility has now dropped to 2.5% annualised, the lowest since late 2017. There is still some uncertainty over what policymakers really want here, but further stability in USD/CNY should be good news for local carry stories & continue to benefit commodity-linked high-yield FX such as ZAR & Latam.

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