

FX Daily: Vaccine-powered rally

Hopes for progress on a vaccine are required to offset the negatives of increasing US-China tensions and to get a better grasp of the size of the economic damage and what the future business environment will look like. If US equities can hold their gains today, DXY could drift towards a solid floor near 99.00



Vaccine

Source: Shutterstock

📉 USD: Dow futures called up +400 on vaccine news

US financial markets look to re-open in a positive mood after the long weekend, again buoyed by news of progress on a vaccine – this time from Novavax.

Given that the [WHO reports](#) that there are 10 candidate vaccines in clinical evaluation and 114 candidate vaccines in pre-clinical evaluation, clearly there is a lot of opportunity for fresh news on this subject. Hopes for progress on a vaccine will be needed to offset the negatives of:

- (i) increasing US-China tension;
- (ii) a better understanding of the size of the economic damage and what the future business environment will look like.

After aggressive Fed action (its balance sheet now stands at US\$7.04tr versus US\$4.16tr at the start of March), the dollar is clearly trading like a funding currency and if US equities can hold their gains today, DXY could drift towards a solid floor near 99.00.

➔ EUR: Struggling to make headway

EUR/USD is drifting higher within the softer dollar environment but may not have the momentum to press 1.10 today. Instead, caution is being used ahead of tomorrow's European Commission meeting, where the Commission will propose an implementation plan for the EU recovery fund.

There are still several countries notably resisting the concept of a grant – and clearly several rounds of negotiations to be conducted – but a better chance of EUR/USD breaking 1.10 may come tomorrow, should any progress be made. For today, look out for comments from ECB's chief economist Philip Lane, potentially regarding a top-up to PEPP in June.

➔ GBP: Brief reprieve

GBP is enjoying a brief reprieve after a tough couple of weeks, potentially buoyed by the news that the UK retail sector will open up in mid-June.

However, EUR/GBP will struggle to break below 0.8900, before a familiar impasse on negotiations with Brussels should take its toll as June progresses.

➔ HUF: NBH to review

The national Bank of Hungary meets today to review monetary policy.

Given the recent stability in the HUF and seemingly better than expected 1Q20 GDP data, our team doubt there will be any changes to policy rates or the QE programme, which like other central banks has been successful in bringing sovereign borrowing costs lower. It looks too early for any reversal to the overnight repo rate, which the central bank hiked in early April to defend the HUF (EUR/HUF trading 365 at the time).

However, with CPI under more control, the HUF no longer suffers from the lowest real rates in the region (CZK and PLN show more negative real rates). The June NBH meeting, when the inflation report and new growth forecasts are released, would probably more likely be the place for any further easing measures.

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