# FX Daily: Dealing with the dislocation

Despite the equity rally, structural liquidity challenges remain and it will take some time to fix things. That's probably why the dollar is not quickly handing back recent gains


## USD: Chewing through the good news

Equity markets around the world have enjoyed some substantial gains over the last 24 hours – largely on the view that policy makers are providing enough fiscal support and financial liquidity to ameliorate the coming recession. Reports suggest that Congress will likely pass a US$2 trillion stimulus package today – but that's probably in the price of equities already. And let's not forget that while yesterday's 10% rally in US equities seems large, that's off a base that is 30% lower than a few weeks ago. Given structural liquidity challenges across the board (e.g. working from home is having a big impact) we doubt investors are ready to jump back into the currencies that were hit the most over recent weeks – i.e. the Norwegian krone in the G10 space and the rouble, South African rand and Indonesian rupiah in the emerging markets space – this is especially so since our commodities team has just cut its 2Q20 Brent forecast to $20/bl. There is probably some more fallout coming from recent market breakdowns. Fitch reported that $137bn flowed out of US Prime Money Market Funds between 5-20 March, depriving banks and corporates of a key source of dollar funding. This market does not look fixed given that the JPY 3m basis swap is still at -100bp. And all the quantitative easing is starting to create some scarcity in sovereign bonds. The Japanese repo market is struggling with banks reluctant to lend out the few JGBs in the hands of the private sector. In short then, it looks as though it will take some time to fix things and that is probably why the dollar is not quickly handing back recent gains. DXY may struggle to get back below 100/101 short term.

## EUR: Look out for the take-up of the ECB USD swap line today

EUR/USD has lagged the recovery in risk sensitive currencies over the last 48 hours. We guess that the dollar hoarding story is still an issue here, where European corporates are trying to raise USD through legging out of USD FX hedges. Signs of USD funding needs should emerge at 10:50CET today when the ECB announces the results of its 84-day USD auction. Last week, banks took $76bn at the auction. Also look out for the March German Ifo today. Presumably that will struggle after the release of very poor eurozone PMIs yesterday. We'd like to say that Federal Reserve QE and measures to fix the USD funding market should trigger a EUR/USD recovery to 1.10 – but that looks as though it will take some time.

## GBP: Taking a breather

After remarkable moves last week, GBP is taking a breather. Sterling looks cheap at these levels, but we'll need to see a lot more confidence return to global markets, and a properly functioning system, before cable can break 1.19/21.

## INR: Our team see 80+ levels for USD/INR

Our team in Asia sees the three-week lock-down in India significantly hitting the economy and prompting larger central bank rate cuts. USD/INR poised to spike through 80.

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