FX Daily: Dollar cash call continues

The demand for dollar cash has continued to see stress in the USD funding markets. But hints of less panicked conditions are starting to emerge, as governments step up to the plate with fiscal rescue packages

Source: Shutterstock

USD: Time for more cash-flow and confidence measures

Huge equity losses on Monday triggered another round of de-leveraging – this time in the commodity space (Platinum off 25%) and in popular unhedged positions in CE4 bond markets. The demand for dollar cash continued to see stress in the USD funding markets, where the 3m EUR cross currency basis swap briefly widened to -85bp. Today, however, there are hints of less panicked conditions starting to emerge. It was always going to take time for governments to organise fiscal rescue packages, not just to deal with the health emergency, but also to deal with the hole in aggregate demand. And we are now starting to see these come through. We are impressed by New Zealand's 'Cash flow and confidence' stimulus package – well targeted and worth 4% of GDP. The major focus will be the US, where late yesterday Senate Democrat leader, Charles Schumer, said he would today be proposing a US$750 billion stimulus package – again worth around 4% of GDP. Equity markets will focus on the prospect of such a package making headway. Markets will also be focusing on the USD funding markets again where eight of the largest US banks have said they'll use the Fed's discount window in order to de-stigmatise its use.

Clearly it will take much to restore confidence – especially as Covid-19 cases rise over the next two to four weeks – but it seems as though politicians are finally stepping up to the plate. The dollar can hold onto its gains as markets understandably remain very fragile, but when the dust settles, we think the dollar will end up a little lower. DXY best levels may be 99-100.

EUR: Piece-meal approach in Europe won't help

The Eurogroup meeting failed to impress yesterday, with little consensus on how the EUR410 billion European Stability Mechanism could be employed. France seems to be taking the lead domestically, by announcing 4% of GDP stimulus. What about Germany? Yesterday saw some notable underperformance of European sovereign debt, which is also worth watching. EUR/USD risks 1.1050.

GBP: More stimulus coming through

We could potentially see more Bank of England stimulus coming through soon – e.g. a 15 basis point rate cut and potentially a £100bn+ Gilt buying quantitative easing scheme. Cable risks 1.21/22.

CE4: Heading to EUR/CZK 28.00

The Czech koruna is under immense pressure, with EUR/CZK spiking by 3.5% yesterday, a function of one-way long koruna positioning and the emergency 50bp CNB cut. We think more CZK weakness is in store as the koruna remains overbought and CNB is likely to cut rates more. CNB FX interventions are now a question of when rather than if and we expect the CNB to step in around the 28.00 level. Yet this will not be a firm ceiling on EUR/CZK, with FX intervention there for smoothing. EUR/CZK can trade above 28.00 should global risk assets remain under pressure.

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