

FX Daily: Eurogroup kicks the can down the road

Eurogroup leaders stuck to their long-held strategy of postponement and procrastination, leaving the ECB to do most of the heavy lifting. The euro is down



⬆️ USD: Anti Covid-19 drug test disappointing, supportive for safe havens

Disappointing news on an anti Covid-19 drug test has weighed on risk assets. The reduced prospect of an imminent recovery is at this point a positive for safe-haven FX such as the US dollar and Japanese yen, though the upside potential of the latter has been muted by news that the Bank of Japan may discuss unlimited quantitative easing. The expected dip in US March durable goods orders today should support current sentiment and keep pro-cyclical FX under pressure.

⬇️ EUR: EU kicks the can down the road

EU leaders stuck to their long-held strategy of kicking the can down the road. While they signed off on the Eurogroup's proposals for emergency help (the three-pillar strategy adding up to EUR540 billion), no conclusions were made on the EU Recovery Fund (which could reach EUR1 trillion) with differences mainly surrounding the type of handouts (loans vs grants) to be given. While this

has been seen as a negative for the euro and the currency is down along with other G10 FX against the USD today, the EU's piecemeal approach and the ECB's presence in the bond market are likely to be enough to prevent a material risk premium build-up into EUR for now. EUR/USD to stay above the 1.07 support level today.

📈 CHF: Limits to SNB FX intervention?

EUR/CHF continues to press 1.05 and the Swiss National Bank, presumably, continues to amass FX reserves to stem the franc's appreciation. Are there any limits to just how much the SNB balance sheet can grow? Its balance sheet probably stands close to 130% of GDP and one of the risks with that is it can lead to big P&L swings. 1Q20 saw such a swing, with the SNB losing CHF38 billion, largely on the back of heavy losses in holdings of foreign equities. Those losses can be put through the SNB's balance sheet and SNB capital is not a problem. What is a problem is that a portion of its profits are distributed to the confederation and the cantons, perhaps prompting a political backlash should the profits not be forthcoming. EUR/CHF risks are skewed lower. If the SNB steps away, parity beckons.

➡ RUB: CBR to cut by 50bp, the impact on RUB should be limited

Following the Central Bank of Russia's guidance, our economists look for a 50 basis point cut in rates to 6% today. This is a reaction to the stabilising financial markets, a darkening outlook for local activity and the so-far only modest fiscal stimulus. Yet, given the near-term risks to the rouble and recent retail deposit outflows from Russian banks, this suggests that the CBR will still opt against moves that could be seen as too aggressive. With markets looking for a 50bp cut today following the CBR's communication, the impact on the rouble should be limited, particularly as oil prices start to tentatively recover.

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