

FX Daily: Time for euro re-rating

The European Commission's proposal for EUR750 billion in financial burden sharing should provide some support to the euro in June but geopolitical risks are rising and the rally in crude has stalled



➔ USD: China tension, oil softening both undermine risk sentiment

US equity markets continue to power ahead even though domestic and geopolitical risks continue to simmer. On the former, we need to watch how the President's backlash against Twitter plays out for social media stocks, while on the latter, US tensions with China continue to deteriorate. China's National People's Congress is expected to pass new Hong Kong security laws today, which could see the US follow through on its threats of fresh sanctions – were Congress no longer to certify Hong Kong as autonomous. Elsewhere, the rally in crude – which had helped a re-rating of the commodity and emerging markets bloc – has stalled. And after a large 9mn build in API crude stocks yesterday, a big build in EIA crude stocks today (1.3mn drawdown expected) could see crude under a little more pressure. That environment (i.e. a weak CNH and weak crude) looks a poor one for high yield EM (South African rand has the highest correlation with the offshore Chinese yuan) and could provide the dollar a little defensive support today. However, look out for the first revision to 1Q20 US GDP data, which we see at -5.0% quarter-on-quarter annualised versus 4.8% consensus. Any large downside revision could hit the dollar. Were it not for the mixed global environment, we'd be expecting DXY to break below 98.65/80 on the better euro news. But

today may not be the best day for that.

📈 EUR: Next generation EU should help EUR on the crosses

The European Commission's proposal for EUR750 billion in financial burden sharing should provide some support to the euro into June, allowing EUR/USD to play [catch-up with some of the other dollar crosses](#). A re-rating of the eurozone story – including a shift into European equities – would be a surprising positive. Given a difficult external environment, this FX story initially may be better played out on the crosses, e.g. [EUR/AUD](#) to 1.70 – given [China-Australia tension](#). However, momentum funds may play a role in a EUR/USD range breakout – looking for 1.12 initially.

➡ GBP: Better euro story can help EUR/GBP to 0.91

The better euro story and a difficult June for sterling (in terms of transition negotiations) adds weight to the scenario of EUR/GBP moving to 0.91 in June.

➡ PLN: Polish MPC to focus on the QE response

The Polish MPC meets today to set interest rates. Despite a slightly better than expected 1Q20 GDP figure, we look for 2Q GDP to drop 9% year-on-year given very poor activity data in April. While our team does not rule out a rate cut over coming months, we instead believe the focus will be on the NBP's massive QE scheme worth PLN185bn or 8% of GDP. Some 40% of that amount has been purchased so far and going forward, our team looks for an increasing concentration of purchases in the agency debt space. Despite massive QE, the zloty has performed well over the last month. However, after some consolidation near 4.45, our team sees EUR/PLN returning to a 4.50-60 trading range over coming months.

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