FX Daily: The euro is heading lower

The EUR/USD will break 1.0800. It's just a question of 'when'

USD: Commodity currencies show their vulnerability

Apple's cautious iPhone revenue guidance underscores the downside risk to the inter-connected global economy from the disruption to China's economy following the outbreak of the coronavirus. As has recently been the case, negative China-related news led to the underperformance of commodity currencies overnight (Aussie dollar and Norwegian krone in the G10 space, rouble and rand in the emerging markets space). Still, compared to the second half of January (when EM FX weakened across the board), we see some diversity in EM FX returns so far this month, with the pace of depreciation slowing and some currencies being up vs the US dollar (Mexican peso being a case in point). This reflects a fair amount of bad news already priced in (as evident in the level of 10-year US Treasuries and Bunds) as well as cheap EM FX valuation. In the absence of further negative headline news, downside to EM FX may be more limited from here.

EUR: Breaking EUR/USD 1.08 seems to be a question of 'when' rather than 'if'

In Germany, the ZEW will be the first post-coronavirus indicator and is unlikely to alter the recent trend of unexciting (in many case disappointing) eurozone data. This suggests the EUR/USD downtrend will continue as the mix of soft data, market pricing of renewed ECB deposit rate cuts and attractive euro funding characteristics do not bode well for the currency. Breaking the

EUR/USD 1.0800 level seems to be a question of 'when' rather than 'if'.

GBP: Still no evidence of the post-election rebound in the data

Focus turns to the UK labour market data today but we suspect it is still too early to see any post-election rebound in December data as this is a backward-looking indicator. In line with consensus we expect a slowdown in employment growth, and wage growth may also inch lower. Rather, the main UK event of the week is the February PMIs this Friday which in our view pose some downside risk to sterling, particularly given what we perceive as unjustified increases in expectations of a meaningful fiscal stimulus. Adding the comments from UK Chief Brexit negotiator David Frost about Britain’s disinclination to accept the EU’s level playing field requirement, we expect GBP to embark on a weakening trend in the months to come. EUR/GBP to head towards the 0.8350 level today.

SEK: Limited impact of the economic data on the Riksbank stance

The Swedish labour maker data should have a very limited impact on the Swedish krona as it has little bearing on the Riksbank which has very clearly signalled the stability of interest rates (until 2023!) in its February meeting last week. Rather, the global risk appetite is currently the main driver of SEK, suggesting EUR/SEK should remain close to the 10.50 level.