FX Daily: Everyone's favourite high yielder is CNY

The USD/CNY bear trend shows no signs of letting up as both the onshore and offshore Renminbi press the highs of the year.

USD: Broad dollar decline continues

News of very high efficacy rates on a second vaccine has helped maintain benign conditions in global markets, with equities continuing to nudge to new highs (and Tesla's S&P 500 index inclusion helping too). This is helping to keep the dollar pressured across the board (including USD/JPY) and seeing FX implied volatility levels sink lower. The biggest threat to this scenario is probably some unexpected hard landing in the US economy on the back of second wave lockdowns – a story that has yet to resonate so far (perhaps because of the vaccine backstop?).

Lookout today for October US retail sales, expected to slow to 0.5% month-on-month from 1.9% in September. This looks unlikely to dent benign conditions and we favour DXY to drift towards the 92.15/20 area.

EUR: Following the pack

EUR/USD remains well supported, buoyed by global optimism.

Given the challenges Europe faces – in the middle of a second lockdown – EUR certainly won't lead the rally against the USD, but we think the dollar decline is broad enough to drag EUR/USD back to 1.1920. Elsewhere today, look out for the Hungarian central bank meeting. There is a slight risk of the central bank turning a little more dovish earlier than expected in response to below-target inflation and the stronger HUF.

GBP: A deal within a week?

Press reports today suggest there could be a trade deal within a week. GBP seems a little tired of the stop-start nature of this news, but we would back Cable on the soft dollar story and favour a rally back to recent highs at 1.3310.

CNY: Offering impressive yields of 3%+ p.a.

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Notably, the CFETS basket (the CNY trade-weighted index) is pressing the 2019 highs and up 6% since July – a huge move. Beyond the success of China's Covid-19 measures, stronger growth rates and market liberalisation measures from the PBOC, the CNY still scores highly in terms of the yield – a factor not normally associated with Renminbi.

Because of increasing onshore-offshore arbitrage opportunities in Chinese interest rate markets, the implied per annum yield of holding the CNH is still 3% in the 3m tenor. In the past, this yield might have been compressed lower by good foreign interest, but because of better alignment between offshore and onshore curves (the onshore CNY pays 3.86%), offshore yields are staying higher. In a low-interest rate world, expect the Renminbi to stay in demand.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

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