

## FX Daily: Flight to safety goes global

Global markets sold off amid fears the coronavirus is spreading beyond Asia. And the participation of US equity markets in this rout has poured some cold water on the dollar's rally. But we think it will take quite a lot for US investors to seek safety in negative yielding currencies



### ➔ USD: Thousand-point loss in the Dow sharpens the focus

The spread of Covid-19 to Italy took its toll on global risk assets on Monday as equities suffered their heaviest one-day losses in two years. The participation of US equity markets in the global rout poured some cold water on the dollar's rally, but we think it will take quite a lot for US investors to seek safety in the negative yielding Japanese yen, Swiss franc or euro for any length of time. Markets now price 57 basis points of Federal Reserve rate cuts over the next year and the Fed will be in the awkward position of being prepared to act, rather than delivering a cut for a threat which may or may not materially impact the US economy. An equally-weighted basket of USD, JPY and CHF looks probably the best way to be positioned ahead of any fresh news on the virus. And risk assets look vulnerable enough such that some of the preferred emerging market safe havens – e.g. the Czech koruna in Europe and Mexican peso in Latam look too dangerous to hold. We would also say that long dollar positioning does not appear particularly extreme, such that any indiscriminate de-leveraging does not necessarily mean a much lower dollar. For today, the focus will be on US February consumer confidence – but here it looks too

early too expect a sizable setback given that the Dow was at all time highs just over a week ago. 99.00 may prove the extent of the current DXY correction.

## ⬇️ EUR: Poorly positioned

The severity of the sell-off in US equities yesterday briefly provided some support to EUR/USD, yet there is little to cheer. Eurozone only avoided recession last year thanks to relatively low unemployment and consumption and thus is exposed as any to slowing Chinese demand, supply chain disruption and now the threat to consumer spending. We doubt there is a strong case for EUR/USD to make it back above 1.09 short term unless the Fed sounds very dovish.

## ⬆️ JPY: We prefer JPY on the crosses, not against the USD

Equity weakness saw clean Japanese yen outperformance yesterday, but we would expect any further gains largely to be against open economy, pro-cyclical FX rather than against the USD per se. For example, JPY/KRW could break to 11.20.

## ⬆️ HUF: NBH in wait-and-see mode after two implicit hikes

The National Bank of Hungary meets to review interest rates today but is unlikely to make any dramatic moves ahead of the release of its inflation report next month. No doubt the press statement will acknowledge that upside risks to inflation have increased after the 4.7% year-on-year CPI print in January and recent weakness in the Hungarian forint, but the 50 basis point rise in 3m Bubor since late January has effectively delivered two implicit 25bp hikes and the NBH will be reluctant to do any more right now given that inflation should peak over coming months and external headwinds to activity are growing. We favour EUR/HUF returning to the 335 area.

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