

FX Daily: Focus on the March minutes

The highlight of today in FX could be the release of the ECB's March minutes. Here's our major currency pair roundup



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➔ USD: S&P 500 just 2% away from the September highs

President Trump must be very happy with the steady recovery in US equities since December's sell-off. The S&P 500 index is barely 2% away from September highs. Presumably policy is very much being geared up towards his 2020 re-election bid. Indeed reports suggest that in any US-China trade deal, China's long term commitment to purchase US commodities will be front-loaded into 1H20, such that Trump can show a narrowing of the US trade deficit ahead of the election. Equity markets are looking bid around the world, as are commodity prices and those flat, recession-signalling yield curves feel the outlier right now. (We favour some curve steepening, particularly in the US).

This looks to be a neutral/positive environment for the dollar, which as usual we prefer to express against the JPY. Were progress to be made on a US-China trade deal, e.g. reports suggest a signing summit between Presidents Trump and Xi could be announced shortly, European FX could actually enjoy a modest re-rating - their open economies having been battered by the trade war last year. DXY should stay supported near 96.50/97.00 ahead of the US jobs report tomorrow.

⬆️ EUR: Too early to hear about ECB help for the banks?

The highlight of today's quiet session may be the release of the March ECB minutes. Apart from that meeting's massive downward revision to growth and CPI forecasts and the extension of forward guidance (now fully priced) there has been some focus on the side-effects of negative rates on bank profitability. It looks too early for the ECB to be discussing in detail a tiering system for excess reserves placed at the ECB (and charged at 40bp), but any suggestion that the subject is on the agenda (perhaps for the June meeting) could prove supportive for the banking sector.

There could also be some news about the planned TLTRO2, potentially with greater incentive to lend and lower rates (closer to the deposit rate than the refi rate) potentially on offer to those banks meeting lending targets. While the EUR will receive no support from the interest rate side, the better equity environment could prove a EUR positive. EUR/USD looks quite well supported near 1.1200 today, but may struggle at 1.1250/80.

⬆️ GBP: Pricing looks fair

Latest positioning data suggests speculators are close to flat on GBP/\$. But there is certainly a shift towards a softer Brexit underway & we think a consensus will build around a customs union over coming days. The FX option market is starting to price a further 1.30-33 range trade. We favour the upside.

⬇️ INR: India's central bank cuts rates as expected

The RBI has just cut the policy rate as expected by 25bp, which should prove supportive of equity flows. Yet we think the INR needs all the help it can get ahead of elections in April/May. We still prefer \$/INR returning to 71 over 1-3m.

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