FX Daily: Glimmers of hope

It's still too early to call an end to the dollar's gains, but we may now see less volatility as the funding squeeze eases

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USD: Potentially exiting the period of profound and indiscriminate moves

As dollar funding issues are being tackled, USD continues the reversal of its previous abrupt gains. As discussed in Global FX: Glimmers of hope, the steps taken on global monetary and fiscal fronts as well as the easing of the USD funding squeeze suggest that global FX markets may be about to exit the period of profound and indiscriminate moves, where the USD appreciates abruptly. While it may be still too early to call an end to USD gains (uncertainty about the depth and persistence of the Covid-19 crisis on the global economy remains high), we may now see less abrupt USD moves / gains and less elevated volatility. While G10 commodity FX still remains vulnerable given the uncertain state of the global economy, the downside to G10 FX low yielders such as the euro and yen should be more limited from here as dollar liquidity issues (the key factor behind the recent decline of these currencies vs USD) are being tackled.

EUR: Euro doing well despite lack of progress by EU leaders

No meaningful progress was achieved in the EU leaders meeting yesterday, with Germany and other fiscally-hawkish states refusing the concept of joint debt issuance and the Coronabond. Still, EUR/USD continues to head higher as the easing USD funding squeeze is pushing the dollar lower. Compared to USD, EUR benefits from a less loose monetary policy set up and better external position. In Central and Eastern Europe, the Czech National Bank refrained from embarking on quantitative easing yesterday and continued to focus on rate cuts. The CNB's high bar for QE but low bar for FX interventions is positive for the koruna and suggests CZK outperformance vs Poland's zloty and Hungary's forint.

GBP: Getting some breathing room

Like most other G10 currencies, sterling has recorded meaningful gains vs the USD. However, sterling is also up vs the euro, with EUR/GBP back close to the 0.9000 level. Hence, the GBP gains not only reflect the broad-based USD weakness but also some idiosyncratic upside stemming from improvement in USD funding. With GBP having the worst current account position in the G10 FX space, the currency's external funding needs made it vulnerable during the dollar funding squeeze sell off. Now, with funding issues easing (as evident in GBP, but also in EUR and JPY), this is providing some breathing space for sterling.

JPY: 3 reasons for a return to USD/JPY 105

As Chris Turner points out in USD/JPY: 3 reasons for a return to 105, we forecast USD/JPY at 105 in three months as (1) Japan's Government Pension Investment Fund probably won't pour money into overseas bonds when USD/JPY is above 110 (2) the rally to 112 was largely down to USD funding strains, which should reverse in April, and (3) Japan's large current account surplus will see JPY favoured in a recession. As the recent USD funding squeeze eases, USD/JPY is already back below 110.00.

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