

## FX Daily: Iowa kicks off election cycle

The Democratic caucus in Iowa could send ripples through equity markets



### ➔ USD: First take on the Democrat nomination race in Iowa

Financial markets are cautiously watching the spread the coronavirus and re-pricing the global activity story. Chinese policy makers have been quick to add liquidity to domestic markets upon their re-opening after the Lunar New Year and let's see whether that's enough to provide some stability to global equity prices, as the S&P 500 looks vulnerable after Friday's sell off.

Understandably USD/CNH has traded through 7.00 and those currencies most exposed to equities and commodities (Australian dollar, Norwegian krone, New Zealand dollar, South African rand and Russian rouble) and those most exposed to Chinese activity and tourism (Korean won and Thai baht) remain vulnerable. Focus later today will turn to the Democratic caucus in Iowa, where candidates will receive their first delegate pledges. Iowa provides 49 of the total 4750 delegate pledges - clearly small but given the large number of undecideds a large win, say, for Bernie Sanders could send ripples through equity markets. US data this week should be reasonably dollar supportive, but the eroding US yield advantage tends to favour some dollar softness versus the Japanese yen and Swiss franc, while dollar strength against the high yielders. DXY to trade 97.15-75.

## ➔ EUR: A short squeeze is the euro's best friend

Friday saw a pretty miserable set of fourth quarter GDP releases across the eurozone (ex Spain) and core eurozone inflation slipping back to 1.1% in January. Despite that EUR/USD enjoyed a late day rally, largely on the back of a US equity sell-off. With the euro's new-found status as a funding currency, but not a safe-haven, the best hope for a higher EUR/USD rally comes from an extended correction in equities. It's also a quiet week for eurozone data and the best levels for EUR/USD this week may be around the 1.1150/75 area.

## ⬇ GBP: Johnson sets out UK trade position at 11GMT

Having enjoyed a Bank of England-powered rally last week, sterling looks set to come under pressure early this week as the UK and the EU set out their starting positions for trade talks. Prime Minister Boris Johnson is to deliver a speech at 11:00GMT where he is widely expected to position the UK with no interest in regulatory alignment and a preparedness to walk away from talks (and trade on WTO terms) if need be. This will probably characterise negotiations over the next 9-10 months and stands to drag cable back to the lower end of its 1.29-1.35 range.

## ⬇ AUD: ING expects a non-consensus RBA rate cut tomorrow

Only three of twenty-six forecasters are expecting a 25 basis point rate cut at tomorrow's Reserve Bank of Australia meeting – and ING is one of those. Such an outcome would bring us one step closer to quantitative easing from the RBA, and combined with the re-pricing of global growth on the coronavirus update, could send AUD/USD below 0.66.

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