

FX Daily: Lack of a quick fix keeps risk pressured

Fiscal and monetary measures can only do so much as a large part of the developed world goes into lockdown and the scale of the global recession is becoming clearer



US Capitol

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USD: Mailing of \$1,000 cheques can help

In barely over a week, the US fiscal response to the Covid-19 crisis has ballooned from an \$8 billion healthcare package to a proposed \$1.2 trillion stimulus, including \$300 billion in cheques to be mailed out to US citizens. Equity markets will monitor the progress of this proposed bill in Congress. Investors will also closely watch developments in USD funding markets. Hats off to any analysts that predicted the US Commercial Paper market closing for business last Thursday, prompting a surge in 30-day (A2) rates to 3.23% yesterday from 1.62% Wednesday evening. This undoubtedly forced corporates to draw down on bank credit lines and exacerbate a USD funding squeeze. These rates closed at their highs yesterday, despite the Federal Reserve announcing a restart of its Commercial Paper Funding Facility (CPFF). Those close to the market think the Fed's terms (OIS +200 basis points) aren't particularly generous – so let's see how quickly the CP market

re-opens as a vital USD funding route for the corporate community. These fiscal and monetary measures can only do so much as a large part of the developed world goes into lockdown and the scale of the global recession is growing. With commodity prices still plunging and deflationary fears allowing most emerging market nations to cut rates (including Turkey), EMFX remains very much on the back foot and is keeping the dollar bid. We think the dollar will weaken when the dust settles – but that may not be well into April. DXY to press 100, angering the White House.

➔ EUR: Look out for 1050CET USD auction results

The European Central Bank holds its first 84-day USD auction today, results at 1050CET. A large take-up might be greeted well by the markets, relieving pressure from the wholesale funding markets. Thus, again watch the EUR cross currency basis market, which hit a new wide yesterday. We suspect EUR/USD finds support in the 1.09/1.10 region, but FX set to stay very volatile on the back of poor liquidity.

⬇ GBP: BoE cut could come at any time

[Following another support package from the UK Chancellor](#), we expect the Bank of England to cut rates 15 basis points soon and announce quantitative easing in the region of £100-150 billion. These are exceptionally low levels for cable, and we would favour a recovery into April.

⬇ CE4: Regional FX under pressure, CZK most vulnerable

Our Central and Eastern European team has provided some initial thoughts on the Covid-19 shock to the region, with [a detailed look at GDP](#), CPI, monetary, fiscal and FX trends. From a FX perspective, the Czech koruna looks most vulnerable at the moment, although [Poland's new QE scheme](#) will likely send EUR/PLN above 4.50 – where we expect the National Bank of Poland to start FX intervention. Both the Hungarian forint and Romanian leu will stay pressured, with the NBR using all its liquidity tools in trying to prevent a disorderly RON sell-off. Elsewhere, the [Central Bank of Turkey delivered an emergency 100 basis point cut](#) and the Turkish lira is embarking on a so far orderly decline – but remains very fragile.

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