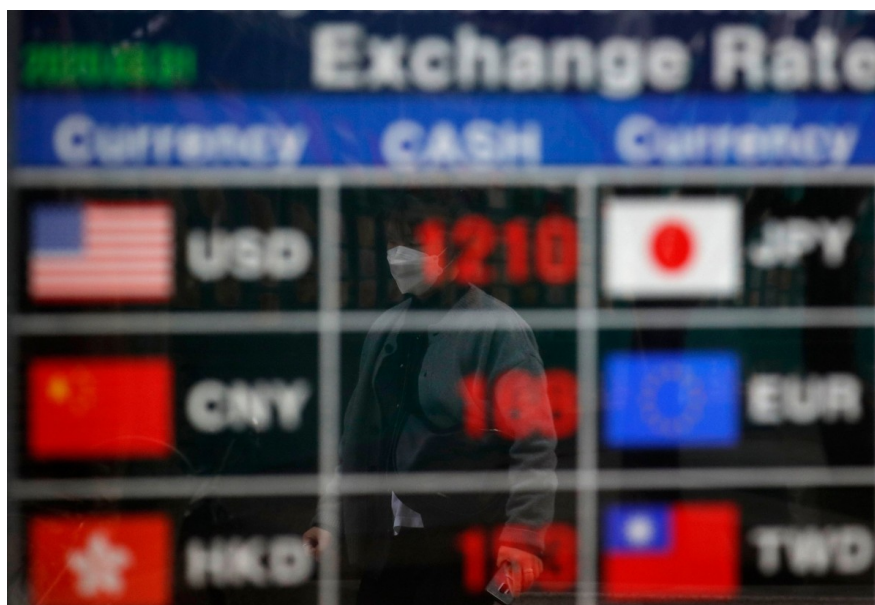


FX Daily: New quarter, same uncertainty

The second quarter, which starts today, should tell us a lot about how deep the looming global recession will be and whether the extraordinary monetary and fiscal measures will be able to buffer the virus impact



📌 USD: Surveys are no game changer

If the first quarter that just concluded threw an unprecedented systemic risk to the markets, the second quarter that starts today should tell us a lot about (a) how deep the looming global recession will be and (b) whether the extraordinary monetary and fiscal measures will be able to buffer the virus impact. On the first point, surveys around the world are starting to provide some indications: in Asia, PMIs are already [painting a grim picture for manufacturing](#), as we are reluctant to read much into the rebound in Chinese numbers. Today, it's the US's turn with the ISM manufacturing, as markets will weigh how much the index has dropped into contraction territory. A disappointing number bears the risk (also, keep an eye on ADP payrolls) of adding pressure to global pessimism, but it will still be mostly down to the length and extension of the lockdowns to drive sentiment. In the US, a sharp rise in the rate of contagion and deaths likely paves the way for more stringent measures ahead. Accordingly, 10Y UST yields are back on a downward trajectory to test 0.60. The resilience in the dollar could suggest the USD is finding back some correlation with risk aversion, although another step by the Fed to insure global USD liquidity yesterday (by deploying a repo facility for other central banks) still points at some USD weakness, in our view.

➔ EUR: Waiting for the fiscal catalyst

The further easing in US dollar funding fears is one of the factors – along with more aggressive quantitative easing by the Federal Reserve compared to the European Central Bank – that should put a floor under the EUR/USD in the next quarter. For now, the pair seems to be missing a catalyst for a decisive rally above 1.10: some agreement on a coordinated EU fiscal move (e.g. coronabonds) could be one, but markets are still lacking encouraging indications in this sense.

➔ GBP: Speculators still like sterling

Sterling is looking for some stabilisation in the 1.23/1.25 area after a big volatility period. In the latest CFTC report, [speculative sentiment on GBP remained mildly bullish](#) (net positioning at +6% of open interest).

⬇️ CAD: On a slippery slope

Some USD weakness has helped USD/CAD hold closer to 1.40 than the 1.45 level we are expecting to see in the coming days. Upside pressure to the pair is warranted as idiosyncratic risks to the loonie should outweigh additional USD softness. Battered oil prices (WCS is trading at 5\$/bbl) will quickly hit the energy sector's (some 10% of GDP) profitability, unemployment has spiked even before any nationwide-lockdown measure in the country and all this suggests that the Bank of Canada may have to ramp up its QE programme to support the economy.

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