# FX Daily: Perfect storm hits global FX

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## USD: Investors take no chances

Financial markets have suffered a rude awakening to notions that volatility is a thing of the past. We're now seeing the kind of market dislocation not witnessed since the 2008-09 Global Financial Crisis. The perfect storm for FX markets includes: (i) Covid-19 spread going global and investors fearful of a spike in US cases this week as US authorities play catch-up with testing, (ii) a collapse in the OPEC+ agreement, which now triggers a market share grab between the Saudis and Russia (oil-linked currencies smashed) and (iii) a report in the FT that Citibank is pulling out of two-thirds of its vendor trading platforms raising some (perhaps ill-founded) concerns over FX market liquidity. This all conspires to deliver an extreme flight to safety, into the likes of the Japanese yen and the Swiss franc (where years of trade surpluses have created large Net Foreign Asset positions) and into US Treasuries (10-year yield below 0.50%!) S&P 500 futures are off 5% and investors will be re-familiarising themselves with NYSE Level 1,2 & 3 circuit breakers which come in at -7%, -13% and -20%. This severe level of dislocation means that the market will now be calling on the Federal Reserve to re-start quantitative easing. It's a Fed black-out week ahead the 18 March meeting, but it would be no surprise to see Fed Chair Jerome Powell testifying in Congress that the Fed is ready to provide a lot more liquidity. We'll also be watching the government response. So far, the US fiscal stimulus has been small and targeted at the healthcare sector and getting cross-party support for something a lot bigger will take time. Expect the flight to safety to dominate this week, with DXY perhaps falling through the 94.40 level outlined in out G10 FX Week Ahead.

## EUR: ECB dragged into action?

The European Central Bank failed to sign off on a co-ordinated easing move last week and today now faces a bigger job to restore confidence. Look for targeted measures at Thursday's rate meeting, but there will be little they can do about a stronger EUR/USD. If the Fed re-starts QE, we should be look at 1.20, given that we've already seen 1.15 hit in a heartbeat overnight. For today, we expect US equity weakness – demanding a greater response from the Fed – to keep EUR/USD bid. Elsewhere, oil exporters-Norwegian krone, Canadian dollar, Russian rouble, Mexican peso & Columbian peso-should stay under pressure and the market will keep watch on the US shale exporters and their re-financing story.

## JPY: Much stronger than we thought

We had thought 104/105 might prove a line in the sand, but we've seen a USD/JPY low at 101.50. Were the pair to break 100 (and add to further equity weakness) Washington might not mind the Ministry of Finance providing JPY liquidity. Emergency times!

## EMFX: Carry trade unwound goes deeper

This kind of strength in the Japanese yen and volatility will clear out carry trades and question those countries running current account deficits. E.g. Indian rupee, Indonesian rupiah, South African rand, Turkish lira, Ukrainian hryvnia, Chilean peso, Colombian peso, Peruvian Sol.

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