FX Daily: Race to the bottom on rates helps the US dollar

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USD: Thai central bank is the first to react to coronavirus with a rate cut

The Bank of Thailand has been the first (Brazil's BACEN should also cut later today) of the central banks to respond to the coronavirus with a rate cut. The Thai economy is one of the most dependent on Chinese tourism and is exposed to the China demand shock. So far, investors are yet to see the virus going global, which has allowed a recovery to come through in global risk assets, including the Tesla-powered rally in US equities yesterday. But the fallout from this shock means interest rates in those most affected (Asia and commodity producers) will be narrowing against the dollar and stand to keep the dollar relatively bid. A decent set of US data today, ISM services and ADP, should keep DXY buoyed in a 97.70-98.30 range. We see little immediate impact from Iowa.

EUR: Lagarde speaks at 1315CET

EUR/USD remains trapped in tight ranges as volatility wallows near all-time lows. Away from the final January PMIs, we'll see a speech from the European Central Bank's Christine Lagarde. The market will look out for any remarks regarding the coronavirus and its impact on European supply chains. Elsewhere, the Polish MPC announces its rate decision today. Despite surging CPI (expected to top out in the 4.3/4.4% year-over-year area in February/March) the MPC is likely to remain more worried about growth and keep rates at 1.50%. Poland saw a sharp deceleration in growth in the fourth quarter and we are below consensus with a 3% 2020 GDP forecast. Thus, we see no more than three (of 10) MPC members voting for a hike. While deep negative real rates do pose a problem for some currencies in the region, we suspect the slowdown in growth and now the coronavirus can cement views that the inflation pick up is temporary. Our Polish team sees a firm ceiling in EUR/PLN at 4.29/30.

GBP: Quiet day for GBP

On a quiet day, cable risks a dip to 1.2900/2940 as investors focus on the limitations for fiscal stimulus on 11 March and the start of trade negotiations.

BRL: Dovish cut could weigh on the real

Brazil's central bank, BACEN, meets to set interest rates today and is widely expected to cut the selic rate by 25 basis points to 4.25%. Should they leave the door open for a further cut, USD/BRL could make another sortie to the 4.30 area. As Gustavo Rangel writes in his preview, BACEN's aggressive easing cycle prompted a substantial US$45 billion of FX outflows last year and suggestions of another cut, bringing real rates closer to zero, won't help the real. Here, BACEN could be wary about what the coronavirus means for Brazil's exports to China – Brazil's exports having been hit by the Argentine recession and the swine flu in China last year. Longer term, however, we see good value in the real should USD/BRL trade above the 4.30 area.

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