

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

The fallout from the coronavirus shock means interest rates in those countries most affected (Asia and commodity producers) will be narrowing against the dollar and stand to keep the dollar relatively bid



Source: Shutterstock

📈 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 lowa.

➔ 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.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.