

## FX Daily: Reality check

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### 📈 USD: Dollar finds support as markets turn more cautious

After a largish (2.5%) fall in US equities on Friday, markets start the week on a cautious note. Whilst there are some very welcome turns in Covid-19 curves, there are still the economic bills to be paid. Insights into the size of these bills will come this week from many April PMI readings released around the world and culminate in Friday's US nonfarm payrolls report. For risk assets, the question is whether the consensus 20% year-on-year decline in 2020 S&P 500 earnings is enough? We've taken a slightly negative view on pro-cyclical currencies in [our G10 week ahead](#), which should mean the dollar enjoys a little more support. US-China tension is also weighing on risk assets and in FX markets is evidenced by the widening in the CNH-CNY basis, now at 750 pips. This basis has been as wide as 1500 pips (during fears of a CNY devaluation back in 2015) and assuming the People's Bank of China continues to manage the USD/CNY fix near 7.05/7.06, USD/CNH could push up to/ but be limited by 7.20. DXY could swing back up to 100 this week.

## ⬇️ EUR: Friday's move above 1.10 looked too good to be true

When the Dow was trading 600 points lower on Friday, only a few currencies were able to outperform the US dollar. Those were the Japanese yen, Swiss franc and the euro. Had the loss of the USD's interest rate differential armour now elevated the EUR above the USD as a safe haven currency? Today's price action reminds us that it is probably too early to draw that conclusion and that the EUR will trade along with other pro-cyclical currencies with the swings in risk appetite. This week is a quiet one for eurozone data, perhaps with the highlight being the release of the European Commission forecasts on Thursday – the interest being where the EC's baseline forecasts sit within the ECB's -5% to -12% spectrum for 2020 growth. For EUR/USD, it would not be a surprise to see it handing back last week's gains, pressing 1.0830/50.

## ➡️ GBP: Can plans to open up the economy provide support?

Away from Thursday's Bank of England rate meeting, the focus this week will be on the UK governments 'phase two' announcements about softening the lockdown. We suspect that news was largely priced into cable when it was trading 1.2650 last week and this week will be more susceptible to downside risk.

## ⬇️ ZAR: Pressure on the CNH will not help South Africa's rand

Apart from the USD/SGD (which is a managed float and probably has a 20% trade weight on China), the USD/ZAR has the highest correlation with daily changes in USD/CNH. Pressure on the Chinese currency as Washington seeks to apportion blame for Covid-19 will not help the already weakened ZAR. It scores poorly on our [FX scorecard](#) and we had pencilled in a 20/USD in our [FX talking](#).

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