FX Daily: Still split over coronabonds

A joint coronabond in Europe seems unlikely at this point but the impact on the EUR/USD should be limited as expectations aren't high anyway

German Finance Minister Olaf Scholz and ECB President Christine Lagarde

USD: Some breathing space

After a string of losses, the US dollar is recovering some ground as risk-on moves, which were prompted by signs of a plateau in the number of coronavirus cases and deaths in Europe, have begun to ease, with investors focusing back on the still uncertain economic outlook. While the latter should keep a lid on any pro-cyclical currency gains, stabilising stock markets and declining volatility do suggest that the worst may be behind us. Both the Australian and New Zealand dollars are under pressure overnight as S&P cut Australia's rating outlook and the Reserve Bank of Australia signalled a readiness to do more quantitative easing.

EUR: Division over coronabonds

Not much progress has been achieved in the EU Finance Ministers meeting so far, with the negotiations extending into the night. French Finance Minister Bruno Le Maire tweeted that the group will meet again tomorrow. The division on the issue of debt mutualisation and coronabonds between the Northern states and the rest of the EU remains. The former continues to prefer the European Stability Mechanism as the main financing tool while the others (France, Italy, Spain) continue to push for coronabonds. We don't expect much progress to be achieved and a move towards debt mutualisation seems unlikely at this point. The impact on the EUR/USD should be limited as (a) expectations are not high for the coronabond anyway (b) at this point, the fiscal risk premium is not the main driver of the euro, (c) stabilising risk appetite should ease appreciation pressure on the dollar. EUR/USD to stay above 1.08 today.

GBP: Staying rangebound

We expect EUR/GBP to remain rangebound around the 0.8800 level today. There has been no deterioration in Prime Minister Boris Johnson's condition, which officials describe as stable. This suggests GBP should remain steady.

PLN: Central bank on hold for now

Our economists don't expect the National Bank of Poland to change interest rates or introduce new unconventional instruments at today's meeting. Should economic data show a stronger deterioration in activity, further rate cuts are possible at the May or June meetings. With the market already pricing an additional 75 basis points of cuts this year, further cuts should have a limited effect on the Polish zloty, with the prime EUR/PLN driver currently being global risk sentiment. Following the National Bank of Hungary's steps announced yesterday (implicit hikes, hint at QE to stabilise the bond market) and given the oversold forint levels, we expect HUF to outperform PLN in coming days. Indeed, after the recent NBH tightening, HUF is now the highest yielding currency in the CE3 space. Today`s Hungarian March CPI should be a non-event for HUF as CPI is expected to fall even further in coming months. Coupled with NBH hikes, this will improve the HUF real rate.

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