FX Daily: Tentative calm after yesterday's storm

Markets are stabilising after a sharp selloff on Monday but the number of coronavirus cases in Europe and the US is likely to grow and economic data is likely to deteriorate further. This suggests more pressure on cyclical currencies

USD: Tentative calm after yesterday's storm

Markets are experiencing a tentative calm after yesterday's storm. While President Trump's intention to provide tax cuts to support the economy have in part helped sentiment, it remains to be seen what package will eventually be introduced. The Democrats will likely prefer to focus on increased spending. Moreover, as the experience of past weeks has shown, caution pays off as global central banks have somewhat exhausted their tools to fight the current downturn. There has so far been a limited appetite for coordinated action and fiscal stimulus takes time. Moreover, with the number of Covid-19 cases in Europe and the US likely to grow, economic data is likely to deteriorate further, suggesting pressure on cyclical currencies (indeed, despite the stabilising equity market, US dollar is up overnight against all G10 cyclical FX) as well as on emerging market FX.

EUR: EUR/USD still heading higher

In line with the broader trend, EUR/USD gave up some of yesterday's gains but we still see EUR/USD heading to 1.15 and even above that level should the Federal Reserve start contemplating quantitative easing. Even if the odds of the European Central Bank easing this Thursday have risen, given the already very loose ECB policy set up, additional easing (likely to be a series of small measured steps) is unlikely to be overly EUR negative –relative to the larger scale Fed easing.

Oil and FX7: Winners and losers

Despite today's rebound in oil prices, our commodity strategists remain fundamentally bearish as producers are set to open the taps from 1 April, and this will push the market into deep surplus over the second quarter. In the G10 FX space, this keeps the Norwegian krone and Canadian dollar vulnerable, while in the EM space, the Colombian peso and Russian rouble stand out negatively. On RUB, with oil at US$35/bbl we expect USD/RUB at 70-75. Emergency FX intervention or rate hikes are less likely unless USD/RUB is at 80-85 or weaker. In contrast, Central and Eastern European FX should be a relative outperformer in the current environment given the low beta / low yielding nature, low exposure to the oil price and exposure to the rising EUR/USD.

CZK and HUF: Discounting February CPI as old news

We expect CPI inflation in both Poland and Hungary to have little impact on their respective currencies today as the February readings will be seen as yesterday's news in light of (a) rising Covid-19 risk (b) the sharp fall in oil prices. Based on our estimate, our newly downgraded oil price forecast may reduce Czech and Hungary 2020 CPI by 0.4% and 0.6%, respectively. Rather, the main theme in markets now is (a) whether the Czech National Bank will cut and (b) whether the latest developments allow the National Bank of Hungary to refrain from (modestly) tightening at its March meeting. Coupled with positioning (market long CZK and still short HUF), we see Hungary's forint as an outperformer in falling markets, doing better than the Czech koruna and Polish zloty.