

FX Daily: The Fed's big bazooka

The Fed is doing all it can to keep the financial system afloat. But it needs help from US policymakers, who are still debating a way forward



Source: Shutterstock

📌 USD: The Fed's bazooka

Although the big [Fed bazooka](#) did not help market sentiment much yesterday (as US policymakers did not agree on the details of fiscal stimulus), risk assets are up overnight and the dollar is experiencing a broad-based decline in the G10 FX space. As we discussed previously, (a) given the currently elevated volatility we shouldn't get carried away with risk asset rebounds such as this one right now and (b) all fiscal, monetary and USD liquidity policies need to pull in the same direction to stabilise the markets. With the Fed making huge strides on the last two factors (the measures announced yesterday are not only about open-ended QE, but importantly also about loans to the corporate sector, in turn dealing with rising credit risk issues), the ball is now in the court of US policymakers. Treasury Secretary Steven Mnuchin has said policymakers are close to a deal, giving market sentiment a boost this morning. As for emerging market countries struggling with USD financing, the IMF announced yesterday that it will step up emergency finance to these countries.

⬆️ EUR: Fed out-easing ECB should eventually lead to higher EUR/USD

Large-scale unlimited easing by the Fed announced yesterday should eventually be EUR/USD positive once the current market dislocations (the USD funding scarcity) fade. As outlined in our [latest edition of FX Talking](#), we target EUR/USD 1.1500 level in six months.

⬇️ GBP: Remaining vulnerable

The UK government followed other European states and announced tougher restrictions to battle the Covid 19 crisis. As long as markets see global and fiscal and monetary policies as mis-aligned and the dollar funding issue remains in place, external funding related GBP will remain vulnerable.

⬆️ CEE FX: CNB QE imminent, while NBH still in wait-and-see mode

The National Bank of Poland and National Bank of Romania announced QE last week, but we don't expect the National Bank of Hungary to move in this direction at today's meeting. If no QE is announced today, this might be a short term positive for the forint. Still, we are looking for higher EUR/HUF in coming weeks, targeting the 360 level, as (a) market sentiment remains difficult for emerging market FX; (b) the NBH is likely to eventually announce QE; (c) unlike its CEE peers, the probability of NBH FX intervention to smooth the forint's decline is low. In contrast, we expect the Czech National Bank to announce QE imminently (at Thursday's CNB meeting at the latest). This should put the already battered Czech koruna under more pressure and push the CNB into FX intervention, which we expect to start around or above the EUR/CZK 28.00 level. CZK/HUF to move lower today.

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