Article | 17 April 2020

FX

FX Daily: 'Moment of truth' for the eurozone

French President Emmanuel Macron has stressed the need for debt sharing in order to deal with the Covid-19 crisis and keep the EU project alive. We see the EU muddling through regardless and expect the EUR/USD to move higher into the summer months

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USD: Markets seeing the glass half full

The weaker than expected China GDP had a limited impact on risk assets (our economists expect China to contract by -1.5% in 2020), with the market putting a higher emphasis on President Trump´s guidelines on the eventual re-opening of the economy. Even in risk-off days, volatility in markets no longer spikes significantly and remains well below the March highs. Declining volatility and the loss of the US dollar's interest rate differential advantage should help to anchor risk assets. Still, with oil prices unlikely to recover significantly this quarter and remaining under US$30/bbl, this limits the upside of the likes of Norway's krone and the Canadian dollar in the G10 FX space.

EUR: The moment of truth

In his "moment of truth" speech, French President Emmanuel Macron further underscored the need for debt mutualisation (coronabonds) in order to deal with the Covid-19 crisis and keep the EU project sustainably and credibly alive. Still, opposition from northern EU states remains in place and the bar is set high for a solution to be agreed at the EU leaders video conference call next Thursday. Even without a coronabond, our economists expect the EU to continue muddling through and eventually come up with a face-saving solution. This in our view should prevent any large risk premia being built into the euro during the current Covid-19 crisis and risk premia driven euro downside (even with the help of the European Central Bank, which should soften the BTP´s downside via the ECB's Pandemic Emergency Purchase Programme). We thus continue to see higher EUR/USD into the summer months as the Federal Reserve's large balance sheet expansion weighs on the dollar.

GBP: Modest downside bias for EUR/GBP

EUR/GBP continues to hover around 0.8700, failing to break this support level significantly. Sterling is also shrugging off comments from UK officials that rule out any extension of trade talks with the EU beyond 2020. For now, we continue to expect a gentle move in EUR/GBP lower as investors´ concerns about the EU's long-term fiscal outlook should be a marginal negative for EUR/GBP.

NZD: Deteriorating fundamentals

The New Zealand dollar has paid a higher price for the fragile risk environment in recent days than its pro-cyclical peers and NZD/USD has edged back below 0.60. The key reason for this is the ultra-dovish stance of the Reserve Bank of New Zealand, as Governor Adrian Orr surprisingly hinted that negative rates are not off the table while the Bank is already set to increase its asset purchases. Add to this the downturn in dairy prices and there's likely some room for more NZD weakness in the near-term, with AUD/NZD unlikely to face much resistance on its march to the November 2019 1.08 highs. But for today, the weaker USD environment should push NZD/USD higher.

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