

FX Daily: Time to differentiate

President Trump's push to reopen the economy is being greeted warmly by investors, so far. But it's a mixed environment for the dollar



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➔ USD: Mixed environment for the dollar

Trade-weighted measures of the dollar are trading in the middle of late April ranges. Some currencies are still managing to outperform the dollar, such as the Aussie dollar and Swedish krona. These were the currencies that ranked well in our [FX score card](#), based on undervaluation and exposure to recovery stories. Equally, some of the factors in our emerging market FX scorecard, e.g. debt ratings, are playing a part too – Brazil's already poor sovereign outlook was switched to negative at Fitch late yesterday and is weighing on the *real*. For reference, we should see a 50 basis point rate cut in Brazil later, and as in Mexico, signs that local central banks are prioritising growth over FX stabilisation leave the BRL and Mexican peso vulnerable in the coming months. Today's session could be a slightly positive one for risk assets as President Trump's push to re-open the economy seems to have been greeted well by investors (Dow called up +130 points currently). Additionally, the People's Bank of China fixed USD/CNY at 7.0690 as Chinese markets reopened, providing a little more stability for Asian FX. In terms of the calendar, look out for US ADP today, expected at -21 million, the same as consensus nonfarm payrolls this Friday. The soft EUR environment is making DXY look bid, but DXY may struggle to break 100.

⬇️ EUR: More baggage

Our bullish call on EUR/USD for the second half of this year was largely premised on eurozone fiscal premia being contained and a benign environment allowing dollar weakness to win through. That former assumption has taken a knock after [yesterday's court ruling in Germany](#). The slightly better external environment prevented a harder sell-off in EUR/USD yesterday, but it looks like it will be a long three months for the euro – as the European Central Bank prepares its response to the court ruling. Expect the EUR to go on 'Italian bond-watch' with downside risks to EUR/USD as investors struggle to assess whether the ECB's BTP buying operation is undermined. EUR/USD risks 1.0770.

➡️ GBP: End of furlough – good or bad news for GBP?

Reports suggest the UK government may be looking to reduce furlough support to encourage people back to work and save money. It is unclear how this will play out for the pound, but EUR/GBP should trade a 0.87-0.88 range given a soft EUR.

⬆️ HUF: Oversold HUF still attractive versus the QE-tainted PLN

Hungary's forint continues to outperform its central and eastern European peers, with EUR/HUF breaking below the 350 level yesterday. The cautious central bank quantitative easing has had a stabilising effect on local bonds (thus making them attractive to foreign investors) while HUF also remains very oversold. High front-end implied yields are providing a cushion to the currency (which now exhibits higher yields than Poland's zloty or the Czech koruna). With the National Bank of Poland embarking on materially larger QE than its Hungarian counterpart, the PLN/HUF cross is about to test the 77.0 level while HUF implied volatility continues to move lower (both in absolute terms and relative to PLN) as the worst for the forint seems to be behind us.

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