

Article | 1 May 2020

FX

FX Daily: Treading carefully with risk

With the S&P 500 seemingly stalling at a 62% technical retracement of the February-March sell-off and the market perhaps too conservative in only looking for a 20% fall in S&P 500 earnings this year, it looks as though investors will take a cautious attitude to risk



falling stocks

➔ USD: Amazon and Apple lack of guidance sets the tone for risk assets

'Sell in May and go away' is an old financial market adage, suggesting investors take a more conservative approach to risk during the summer months. Whether it applies this year remains to be seen, although for reference the S&P 500 has rallied in seven of the last eight years during the May-October period for an average gain of 4%. What may concern investors today, however, is that market favourites such as Amazon and Apple (stocks that have led the 35% rally from the lows in S&P 500) struggled to provide guidance when releasing 1Q earnings yesterday. Apple did not provide a forecast for the first time in 10 years, while Amazon gave a 2Q profit forecast of anywhere between a \$1.5 billion profit and a \$1.5 billion loss. With the S&P 500 seemingly stalling at a 62% technical retracement of the February-March sell-off and the market perhaps too conservative in only looking for a 20% fall in S&P 500 earnings this year, it looks as though investors will take a cautious attitude to risk. Thus, it may be too early

to expect the kind of benign environment that can allow the dollar to sink across the board. For today, the US data calendar will see April ISM manufacturing, expected to drop back to the lows seen in December 2008. DXY could move back into a 99.00-99.50 trading range.

➔ EUR: ECB does enough – for now

Yesterday's EUR/USD rally was slightly incongruous with the overall market tone, although the European Central Bank did seem to do enough to contain eurozone [fiscal risk premia](#). Investors felt that the ECB's fears of fragmentation were genuine enough and liquidity adjustments (TLTROs and PELTROs) sufficient enough to trigger a strong rally at the short end of the BTP curve. The timing of the EUR/USD rally did, however, look like it owed a lot to month end portfolio rebalancing flows. With large parts of Europe closed for May Day holidays, conditions should be thin and quiet today, but we would say the market environment does not favour EUR/USD pushing above 1.10 just yet.

➔ GBP: Too far, too fast?

Cable has enjoyed a healthy rally over the last week but may struggle to break through 1.2650. Brexit intransigence between the UK (no transition extension) and the EU (UK has to request any extension by end June) may take its toll on sterling over coming weeks.

➔ AUD: US retaliation against China to upset AUD rally?

As we highlighted in our [FX scorecard report published yesterday](#), we like the Australian dollar in a recovery phase. That story may occasionally be challenged, however, should the US retaliate against China over the virus. The White House is discouraging US investment in Chinese equities & looking at more sanctions.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the

publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.