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FX Daily: Treading carefully with risk

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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.

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