

FX Daily: Two decisions to determine direction

OPEC+ meets today to try to reach an agreement on output cuts while Eurogroup finance ministers will discuss a package of support. The outcome of both meetings will set the tone for markets heading into Easter



Source: Shutterstock

USD: OPEC+ and Eurogroup will set the tone into Easter

Some stability has returned to financial markets this week, although participation is low - as is confidence. Away from tracking the path of Covid-19 cases, investors today will be looking at two key decisions. The first is whether OPEC+ (meeting at 16CET) can reach agreement on output cuts. The second is the type of support package to be approved by Eurogroup finance ministers. On the former, [our team thinks it will be tough for OPEC+](#) to get near the 10 million barrel per day cut touted by President Trump. Russia seems only to be offering 1.6mn bpd and only if the US agrees on new quotas too. The collapse in oil prices has undoubtedly added to the pressure on many emerging market commodity producers and global equity markets - and risk of Brent trading sub \$20/bl later this quarter undermines the rally in risk assets. It seems unlikely the Eurogroup can surprise on the upside today regarding the sharing of the growing debt burden, leaving the European Central Bank to be the sole guardian of Italian debt servicing costs. Add in what should

be another large rise in US weekly jobless claims and a sharp drop in US April consumer confidence suggests equity markets will struggle to advance much further. We suspect that the dollar will be building a negative correlation with risk assets over coming quarters, meaning that DXY could nudge back to 101.

⬇️ EUR: Higher Euribor suggests fragmentation

In a worrying development for eurozone money markets, the Euribor-OIS is spiking – suggesting signs of stress. Our European rates strategy team feels this may be a function of the fragmentation in eurozone money markets, where 7 of the 18 providers of rates on the Euribor panel sit in the periphery. This is another reason why confidence in the eurozone project needs to be restored. EUR/USD could retest the 1.0770 lows.

⬆️ GBP: Direct monetary financing

On another occasion, today's news that the Bank of England would be directly financing the government would be taken as a GBP negative. However, one suspects that many countries will be pursuing the same path shortly. Europe's policy malaise may instead keep EUR/GBP offered – targeting a break of 0.8740 support.

⬇️ PLN: NBP gets aggressive

As our [Polish team discussed in detail](#) in their reaction piece, the Polish MPC delivered their own whatever it takes moment by cutting rates 50bp to 0.50% and stepping up QE. On the QE side, purchases will now be broadened beyond Polish government bonds to other bonds with state guarantees. [Our team estimates](#) that the National Bank of Poland could be buying assets in excess of 8% of GDP, large by international standards. The zloty took the news reasonably well, partially helped by new government measures worth PLN100 billion, but overall our team feels the news is slightly PLN negative and could send EUR/PLN to the top of the 4.50-4.60 range.

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