

## FX Daily: US banking stress sends ripples across FX markets

The S&P 500 closed down 1.8% yesterday led by financials (-4%). Heavy losses for SVB Financial, a California-based lender to the venture capital industry, are raising questions over the unrealised losses on bond portfolios amongst US banks. This and today's US February jobs release are creating dangerous cross-currents for FX markets



### 📌 USD: Making sense of overnight moves

Making headlines over the last 24 hours have been developments in the US banking system, where Californian lender SVB Financial has come under stress after realising losses on its bond portfolio. Driving it to realise those losses, apparently, was pressure on its deposit base as higher rates across the system have encouraged depositors to switch and forced banks to compete harder for deposits.

Developments at SVB Financial have raised questions on the subject of unrealised losses on bond portfolios and what it means for bank capitalisation levels. Financials led the S&P 500 index lower yesterday. Earlier this week the Federal Deposit Insurance Corporation (FDIC) Chairman, Martin

Gruenberg, said that US banks had around US\$620bn of unrealised losses on securities that were held to maturity or available for sale accounts. This seems like a big number, but as the [Financial Times reports today](#), equity capital amongst US banks stood at \$2.2tr at the end of 2022. It is hard to say how far this story will run, but we can try to make sense of what it means for FX markets.

The first impact seems quite clear – the news has encouraged deleveraging of open FX positions. Hence the two darlings among the FX investment community this year – the Mexican peso and the Hungarian forint – have led losses in the EMFX space at -2.2% and -0.8% respectively. This theme could continue should the story run.

The G10 FX performance has been more mixed, but makes some sense too. Modest losses have been seen among the higher-beta currencies, such as the Canadian dollar and Norwegian krone (down 0.3% versus the dollar). The outperformer has been the Swiss franc (+1.1%) against the dollar. In addition to its traditional role as a safe haven currency, we have been highlighting recently that the Swiss National Bank has the Swiss franc's back – i.e. is prepared to sell FX reserves to prevent weakness in the franc as it uses the exchange rate as part of its monetary policy regime.

The dollar story is a lot more mixed and is complicated today by the big release of the February jobs data. Pressure on the US banking system is questioning whether the Fed can push ahead with such an aggressive tightening cycle. This has seen US two-year Treasury yields drop 25bp over the last two days alone. This is dollar bearish. Yet one would normally think that a sell-off in equities is dollar bullish, perhaps not, however, if the epicentre for current stress is the US banking system.

That leads us to today's NFP release. Our US economist James Knightley takes us through the [preview here](#). As James asks: "Was January's 517k jobs release a fluke?". The consensus is around +200k, with most estimates in the +100-300k range. Such an outcome looks unlikely to unwind the new-found hawkishness demonstrated this week by Fed Chair Jerome Powell. But a big dip in the headline number and any big backward revisions lower – especially were the wage data benign – could see the dollar come off 1%.

Clearly a day then of many cross-currents. Given the stress in financials, we would probably prefer to be overweight Swiss franc and Japanese yen (despite the Bank of Japan not adjusting policy overnight) and slightly underweight the dollar heading into the NFP release. DXY could head back towards where it started the week at 104.10/20.

*Chris Turner*

## ➔ EUR: Caught in the cross-fire

The SVB Financial-inspired repricing of the Fed curve has seen the two-year EUR:USD swap differential narrow by 20bp in favour of the euro over the last two days. This is providing some support to EUR/USD. A soft NFP job release – questioning whether the Fed has to be as hawkish as Jerome Powell sounded earlier this week – could send us all the way back to where we started the week near 1.0700.

We have highlighted above the pressure of deleveraging on the forint. The Czech koruna – also a favourite of the market – has held up slightly better. Look out for February Czech CPI today. We see upside risks, though doubt this will have much bearing on Czech National Bank policy settings.

Chris Turner

## 📌 GBP: Vulnerable to financial sector stress

The UK has just released a [marginally better-than-expected January GDP](#) release. But the numbers are very volatile and a better read comes from the 3m/3m release at 0.0%. Our UK economist James Smith thinks "today's figures suggest that first quarter GDP could come in flat or only a touch negative, raising the possibility of the UK avoiding a recession in the first half (a rather moot point given that we are talking very small quarterly decreases in output if it does happen)". In short, not a big driver of sterling.

Sterling has been performing a little better over the last 24 hours. However, if the banking stress story has a little further to run we can expect a little sterling under-performance, given the relatively large size of financial services in the UK economy. EUR/GBP can turn big again above 0.8900, while GBP/CHF should make a run at 1.10.

Chris Turner

## 📌 CAD: Less relevant payrolls

Jobs figures will be released in Canada as well today. Consensus expectations are centred around a very small headline increase (10k) after the very strong 150k January read, while the rather volatile wage growth index is seen accelerating beyond 5.0% once again.

This week's policy announcement by Bank of Canada policymakers fully endorses the disinflationary narrative (here is our [meeting review](#)), and while there is still the door open for more tightening if needed, the lack of a hawkish twist in the message despite January's strong jobs data means that labour factors alone are insufficient to prompt new hikes.

So, today's jobs data out of Canada may well matter less than the US payrolls for CAD, given the loonie's elevated exposure to global risk appetite. We continue to see short-term upside risks for USD/CAD, but remain bearish over the medium term, largely on the back of a projected USD decline, rather than CAD outperformance compared to other pro-cyclical currencies.

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