

## FX Daily: Very challenging outlook for oil currencies

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### 📈 USD: Very challenging outlook for oil currencies

Risk assets and higher beta currencies were back under pressure following the collapse in the oil price yesterday and the uncertainty about Kim Jong Un's leadership in North Korea. Indeed, the latter meant that even oil importing Asia FX is also down overnight. As for oil, the collapse in WTI was driven by the May contract expiries and the lack of storage capacity in the US, which in turn translated into negative prices as investors were willing to get rid of the hard-to-store asset at a discounted price. Although we have already seen a recovery and WTI is back in positive territory, [our commodity strategy team notes the storage issue may get even larger next month](#) given the surplus environment. Hence, in the absence of a meaningful demand recovery, negative prices could return for June WTI contracts in May. Given the experience of negative WTI oil prices yesterday, unless the US is willing to move towards mandated cuts (markets will thus closely watch The Texas Railroad Commission meeting today) the upside to currencies of oil exporters (as well as other commodity currencies that will ultimately feel the spillover) should be limited. We see emerging market commodity currencies as more vulnerable than their G10 commodity peers due

to their generally weaker balance sheets and possible downgrade related outflows (Mexican peso being a case in point). Expect volatility of oil exporting FX to remain elevated vs the oil importers in coming weeks.

## ➔ EUR: Widening BTP-bund spread, yet stable euro

Despite the further widening of the BTP-bund spread, EUR/USD remains above the 1.0800 level. This also reflects our view that European authorities (both EU officials and the ECB) will take necessary measures to prevent a meaningful risk premium being built into the euro. Indeed, the euro remains relatively stable and our short term financial fair value model does not show signs of idiosyncratic EUR/USD risk premia. We expect a flattish EUR/USD ahead of the Thursday's EU leaders meeting with possible upside risk thereafter. The April German ZEW Index is likely to show a rather poor reading, yet as this is a broad-based global trend, it should not have a negative impact on the euro.

## ➔ GBP: Stable for now

We look for EUR/GBP to hover around the 0.8700 level today. While lower stock prices are currently a marginal negative for GBP, the uncertainty about the EU leaders summit outcome this week should keep upside to EUR/GBP limited.

## ⬆️ JPY: All factors point to short term yen support

Lower stock and oil prices are a positive for the oil importing, safe haven Japanese yen. Even if risk appetite and oil prices stabilise, we see limited upside to USD/JPY as a weaker USD environment (eventually) should drive the cross lower.

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