FX Daily: Most negatives already priced in the USD

The dollar looks to be under pressure, following the move lower in equities. We'll be keeping an eye on James Bullard's remarks today, to gauge any dovish change in rhetoric

USD: Approaching the end of the bear trend?

The dollar has remained under pressure, broadly following the move lower in equities.

Rising fears about the spread and the consequent economic impact on the US economy keep fuelling expectations that the Federal Reserve will step in with more easing (three cuts by the end of the year are priced in), which is ultimately adding pressure to rates and USD.

In this view, markets will keep an eye on James Bullard's (a known dove) remarks today, to gauge any dovish change in rhetoric. We suspect that most of the negatives have already been factored into USD, especially considering the US economy is less exposed to a global slowdown compared to other major economies, for example, the eurozone. This suggests that we may be close to the bottom of the USD bear trend.

EUR: Still reluctant to see a EUR rally

The rebound in EUR/USD has been assisted by a EUR short-squeeze and a weak dollar and has also translated into risk reversals across all tenors moving back into positive territory and implied volatility spiking. We remain reluctant to expect a continuation of the EUR rally, given the sizeable downside risks to the eurozone economy stemming from the outbreak.

In the meantime, coronavirus cases in Italy have reached 650 and government officials across Europe have sent warning signals about the likely contagion across the region. Data-wise, inflation data in eurozone economies (Germany in particular) will be watched but is likely to remain quite uninspiring, still warranting the highly accommodative ECB stance.

GBP: Rising uncertainty on trade negotiations

With no data releases helping sterling this week, markets have had the chance to price in the uncertainty related to the UK-EU trade negotiations, setting Cable for an extended loss despite the weaker dollar. We still expect some downside room for GBP on the back of this, especially after prime minister Boris Johnson struck an increasingly confrontational tone and threatened to walk away from negotiations in June if the UK's conditions are not met.

CAD: Key growth data ahead of BoC meeting

As markets raised expectations around more Fed easing ahead, those related to Bank of Canada cuts followed. Markets are now pricing a nearly 40% chance of a rate cut next week. When adding the extended slump in oil prices in recent days and the demonstrations in Canada opposing the Coastal GasLink pipeline, it is no surprise CAD is under severe pressure.

Today, we may not see a reversal in USD/CAD, as 4Q growth data may come in weaker than expected and thereby endorse central bank easing expectations.

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