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FX TALKING

FX Talking: Finding currency strength amid the crisis

As Covid-19 curves start to flatten, financial markets move on to examine which economies may recover first and which may be saddled with legacy issues. Two such legacy issues are: i) a renewed Eurozone sovereign debt crisis and ii) the economic fallout of collapsing oil prices on commodity exporters



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Executive summary

On the former our team expect European policymakers to do enough to contain debt sustainability fears this year. We are therefore not expecting an EMU break-up premium to be built into the EUR in 2020. Combined with massive dollar liquidity provision from the Fed, EUR/USD should slowly move towards 1.15.

As a 'Risk on, Dollar Off' paradigm emerges, investors will slowly start to look for value amongst good quality/rated names. Something like the SEK may start to perform a little better – potentially even the GBP as well, when London chooses to extend the EU transition deal by the end of June.

Amongst the commodity exporters, we prefer AUD and NZD over NOK and CAD given

that June should be another difficult month for energy prices. We are also concerned about the commodity-centric bloc in Latam, especially Mexico, where the contraction may be the largest and Banxico is removing MXN's yield armour.

As confidence slowly returns to markets, investors may start to return to foreign equities – a move that would favour Asian FX. Here we would prefer north Asian FX and the high beta KRW, where Korea might actually avoid a 2020 GDP contraction.

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