DAILY REPORT

Weekly FX Market Update

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Oil-dependent currencies hammered by market crash

Most major currencies moved in relatively tight price ranges last week, at least by the standards of the past few weeks.

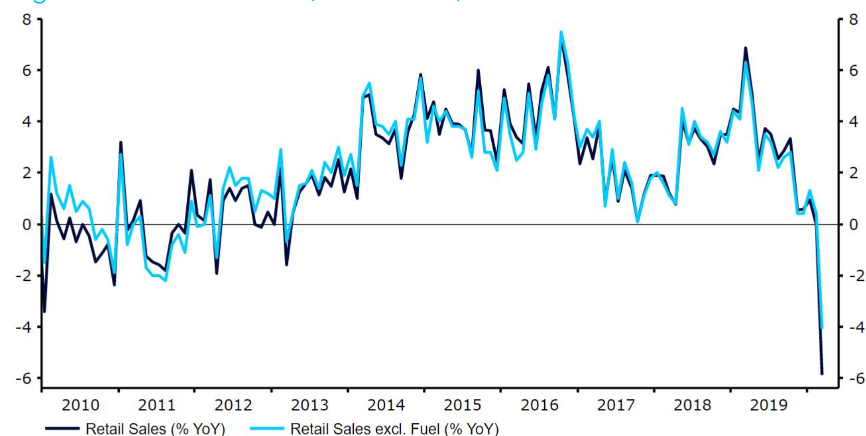
The main exceptions were those exposed to oil prices, like the Norwegian krona and the Mexican and Colombian pesos, which dropped sharply in reaction to the mayhem in the oil market that ended with much lower oil prices across the board. Elsewhere, a generally negative tone in risk assets was supportive of the US dollar, which rose against most of its peers.

Central banks will be the key focus of currency traders this week. The Federal Reserve meets on Wednesday and the ECB does on Thursday. We expect relatively little news out of the former, given how active and aggressive it has already been in announcing various stimulus and support programmes. As for the ECB, we expect to see an expansion of existing measures, particularly the PEPP asset purchase programme announced right at the beginning of the crisis. We think that this will be increased in size to a point where it can absorb all the expected issuance from peripheral sovereigns through at least the end of 2020.

GBP

Data out of the UK last week was dreadful, as expected. Retail sales posted the largest drop on record last month, while the business activity PMIs also fell to all-time low levels. The exception was the March claimant count number, but this was roundly ignored by the market given that it only covers the period up to 12th March, and therefore does not yet reflect the surge in layoffs late in the month.

Figure 1: UK Retail Sales (2010 - 2020)



Source: Refinitiv Datastream Date: 27/04/2020

The reemergence of hard Brexit concerns was also not kind to sterling, which had the second worst performance among G10 currencies. This week, data out of the UK will be sparse and we expect the pound to trade mostly off of news elsewhere.

EUR

Markets appeared to have been somewhat disappointed by the EU's aid package to the countries more affected by the pandemic. We take a more positive view. Between the €540 billion agreed last week and the existing arsenal of tools, more critically the €750 billion PEPP ECB programme, there is sufficient firepower for member states to run the deficits they need to to finance the response to the crisis and the recovery from it.

As mentioned, we think that an increase in the PEPP is likely at Thursday's ECB meeting, which should drive the point home to markets and be supportive of the euro over the next few weeks.

USD

The US dollar has withstood quite well the steady drumbeat of disastrous economic data. Last week jobless claims numbers reflected the loss of another 4.4 million jobs, supporting our view that casual labour relations in the US are likely to maximize the damage from the enforced shutdown of the economy. It is likely that the actual unemployment rate in the US is close to 20% by now, a much faster pace of job destruction than we have seen almost everywhere elsewhere.

The Federal Reserve has been appropriately aggressive in deploying programmes to support the economy, and therefore we expect relatively little news to come out of Wednesday's FOMC meeting.

CHF

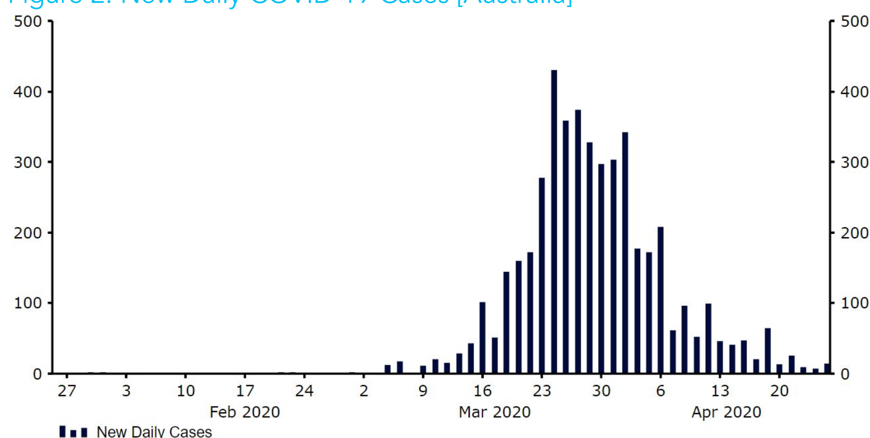
The Swiss franc ended last week not far from where it started against the euro, with the EUR/CHF pair continuing to hover above the 1.05 level. The franc was actually the worst-performing safe-haven currency last week. This is likely, at least in part, related to the interventions undertaken by the Swiss National Bank. SNB data released today shows the most timely measure of those efforts - sight deposits increased by 13.4 bn CHF last week, the biggest jump since early-2015. Such a big spike after a much more limited increase in the week prior (+3.1 bn CHF) could potentially mean that the EUR/CHF level that the central bank is trying to defend is now 1.05.

This week we'll receive the country's March retail sales data. Given the lack of more up-to-date hard data releases, the April sentiment indicators will also be worth watching. The Bloomberg consensus expects that the KOF leading indicator, which is set to show the direction in which the country's economy is headed, will drop to its lowest level since 2009 on Thursday.

AUD

The Australian dollar comfortably outperformed the rest of the G10 currencies last week, rallying sharply by over one-and-a-half percent to its strongest position in around six weeks. The main rationale behind the sharp move higher in AUD is the remarkably contained nature of the virus spread in Australia. Confirmed new cases of the virus have topped out at around the twenty mark in the past seven days, an almost complete evaporation that has allowed some states and territories to begin lifting lockdown restrictions. This is an encouraging development for AUD given that it suggests the Australian economy is likely to get back on its feet quicker than much of the rest of the developed world.

Figure 2: New Daily COVID-19 Cases [Australia]



Source: Refinitiv Datastream Date: 24/04/2020

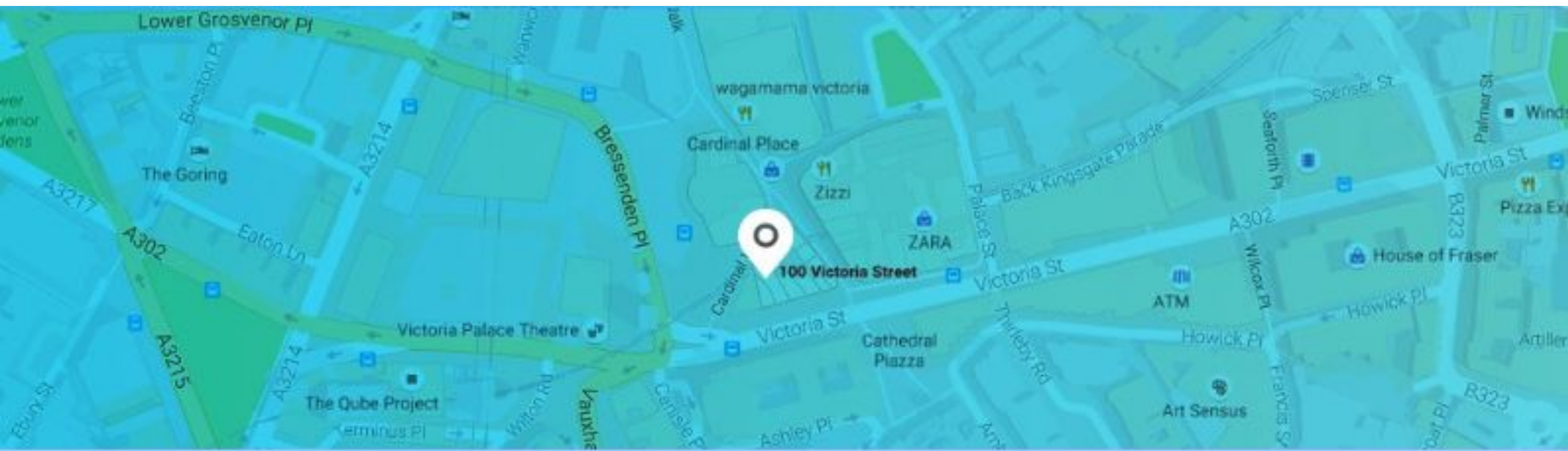
Macroeconomic data out of Australia was similarly bleak to that witnessed across the rest of the developed world. The business activity PMIs both fell short of expectations for April. While the manufacturing index is holding up well at around the 45 level, the services index fell to a record low 19.6, comfortably below the level of 50 and representing a very sharp contraction. First quarter inflation data will be out of Wednesday, although this won't tell us a great deal given it barely covers the crisis period and is unlikely to have any bearing at all on upcoming RBA policy decisions.

CAD

The collapse in global brent crude oil prices to around $20 a barrel has kept gains for the Canadian dollar at a minimum in the past week or so, with the USD/CAD cross ending trading last week roughly where it began it.

The bleak prospects for oil prices amid the mass lockdowns and collapse in demand for the commodity looms large over CAD, given the Canadian economies heavy dependence on its production of oil. We expect this mounting pressure on the economy to be reflected in a big way on Friday's manufacturing PMI, which is likely to fall to a record low.

Aside from that, investors will be keeping tabs on any announcements from the Bank of Canada, scheduled or otherwise, regarding a possible increase in its stimulus measures. We think that an increase in the bank's asset purchasing programme is possible in the next few weeks as the central bank looks to protect the economy from the mounting COVID-19 risks.



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