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FX Week

Risk appetite continues but FX discrimination apparent

Although risk appetite remained intact last week, despite confirmation of the horrendous toll on labour markets of coronavirus especially in the US, the FX markets demonstrated selectivity in terms of what currencies they prefer in a risk loving environment. At the top of the list last week were the commodity currencies of the AUD, NZD and the CAD, which all rose by over 1% versus the USD and which are all closely linked to global growth cycles and illustrative of the confidence investors are feeling that the global downturn may be coming towards an end. At the bottom end of the G10 currency spectrum was the EUR, however, which fell by -1.29% against the USD weighed down by the political tensions emerging between the German Constitutional Court and the ECB and the European Court of Justice. GBP was also a laggard as the UK's recovery from coronavirus appears to be behind those of many of its neighbours, posing questions about policy direction including over post-Brexit trade issues.

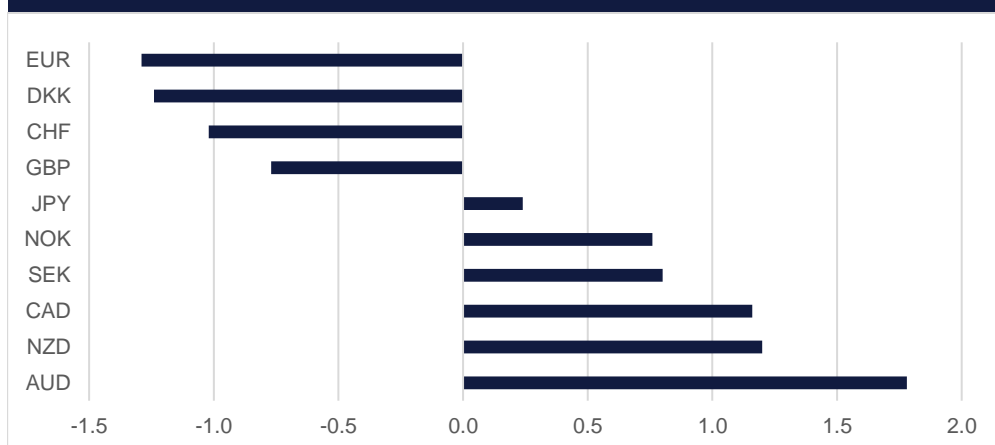
US jobs no worse than feared

With markets finally seeing over the precipice as far as the US jobs market is concerned, with a payroll number of -20.5 million last month and an unemployment rate of 14.7%, the muted reaction spoke to a market that had discounted such a number, and probably far worse. With the perceptions being that April will mark the low point of the coronavirus impact the markets are looking ahead to what they expect will show a gradually improving economic picture, especially now that lockdowns are beginning to be eased. We expect that such an outlook will be challenged, however, and that any improvements will be slow, especially if there are second waves of the virus. For now though the commodity currencies have been in the ascendancy buoyed by further gains in oil prices. Australian employment data in the coming week will be a challenge to the AUD, while the CAD's firmness will depend on oil's recovery staying intact. Most major currencies continued to struggle against the USD, however, as specific issues eroded the markets confidence in them, most notably the EUR.

German Court decision weighs on EUR

Last week's ruling by the German Constitutional Court challenging the independence of the ECB and of the European Court of Justice over its handling of Quantitative Easing (QE) has highlighted deep rooted problems at the heart of Europe's currency union. While it seems unlikely that QE will be stopped after three months, as the Bundesbank will likely provide enough justification for its QE actions over the last few years, it will likely slow the progress towards greater monetary and fiscal integration. Germany will likely hold out against fiscal support for weaker southern European countries like Italy and Spain, and the limits on ECB financing of EU deficits will likely come under greater scrutiny. This will slow the progress the EU will be able to make in coming out of the current downturn, and lower its eventual recovery potential. It will also increase political tensions between different EU countries, maintaining uncomfortable questions about the single currency's long term viability. For this reason we still see downside risks to EUR in the coming months although over time it should get swept up in the general tide of USD weakness we expect to follow the coronavirus crisis.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

GBP also failing to capitalize on USD softness

GBP is also struggling to capitalize on the risk appetite taking hold elsewhere, in large part because of doubts about the UK government's coronavirus strategy. The UK's lockdown is likely to be extended for another three weeks later today, albeit with a few adjustments, but the growth impact may turn out to be one of the worst. The Bank of England has joined others in looking for 25-35% fall in UK GDP in the first half of the year, and saying that it could shrink by 14% over the whole year, marking the deepest recession for more than three centuries. Preliminary Q1 GDP data will make for dismal reading in the coming week, with GDP expected to contract -2.5% q/q while March GDP on its own could fall by as much as -8% q/q, the largest monthly fall on record. The Bank also talked about a 'V' shaped recovery once the crisis is over, but when that will start to be seen has to be in question especially while talks over trade ties with the EU are making little progress.

FX Forecasts

FX Forecasts – Major						Forwards		
	8-May	Q2 2020	Q3 2020	Q4 2020		3m	6m	12m
EURUSD	1.0839	1.0500	1.1000	1.1200		1.0860	1.0882	1.0931
USDJPY	106.65	107.00	110.00	112.00		106.50	106.31	105.85
USDCHF	0.9713	0.9600	1.0000	1.0000		0.9688	0.9660	0.9600
GBPUSD	1.2410	1.2000	1.3000	1.3500		1.2415	1.2419	1.2426
AUDUSD	0.6532	0.6300	0.6600	0.7000		0.6533	0.6533	0.6530
NZDUSD	0.6136	0.6000	0.6400	0.6800		0.6133	0.6131	0.6127
USDCAD	1.3927	1.400	1.3800	1.3500		1.3925	1.3923	1.3922
EURGBP	0.8736	0.8750	0.8462	0.8296		0.8749	0.8765	0.8799
EURJPY	115.50	112.35	121.00	125.44		115.50	115.50	115.50
EURCHF	1.0523	1.008	1.1000	1.1200		1.0516	1.0508	1.0489
	8-May	Q2 2020	Q3 2020	Q4 2020		3m	6m	12m
SAR	3.7565	3.7500	3.7500	3.7500		3.7596	3.7622	3.7731
AED	3.6730	3.6730	3.6730	3.6730		3.6751	3.6775	3.6830
KWD	0.3091	0.3020	0.3020	0.3020		0.3102	0.3109	-
OMR	0.3851	0.3850	0.3850	0.3850		0.3887	0.3926	0.4013
BHD	0.3779	0.3770	0.3770	0.3770		0.3778	0.3781	0.3786
QAR	3.6648	3.6400	3.6400	3.6400		3.6625	3.6601	3.6583
EGP	15.7417	15.7500	16.0000	16.0000		16.3388	16.9300	18.1400
INR	75.553	75.000	73.000	71.000		76.6000	77.4700	79.0600
CNY	7.0742	7.2000	7.2000	7.2000		7.1150	7.1392	7.1792
SGD	1.4129	1.40	1.40	1.35		1.4123	1.4116	1.4107
						3.7503		
	8-May	Q2 2020	Q3 2020	Q4 2020				
MAD	9.8370	10.5000	10.5000	10.0000		9.8801	9.9243	9.9693
TND	2.9133	3.0000	3.2000	3.0000		2.9933	3.0783	3.2833
TRY	7.0875	6.9000	7.0000	6.7000		-	-	-

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

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