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FX Week

Markets attempted to rally over the last fortnight as policymakers rolled out the textbook responses seen during past global crises, but on an altogether bigger scale. Investors also attempted to seize on periodic glimpses of optimism that showed a slowdown in the rate of new Covid19 infections in Italy, for example, which might offer hope that global lockdowns are beginning to work. They even saw oil prices rally on the possibility of a new global output deal between major oil producers. However, even this could not sustain the broader market recoveries, as the economic cost of coronavirus was by the end of last week also becoming ominously clear, as jobless rates soared to unprecedented levels around the world. Chief amongst these was the U.S. jobs report which saw non-farm payrolls plunging 701k in March, with the unemployment rate jumping to 4.4%. More worryingly perhaps jobless claims for the latest week surged to a record 6.65 million, an ominous sign of what lies ahead.

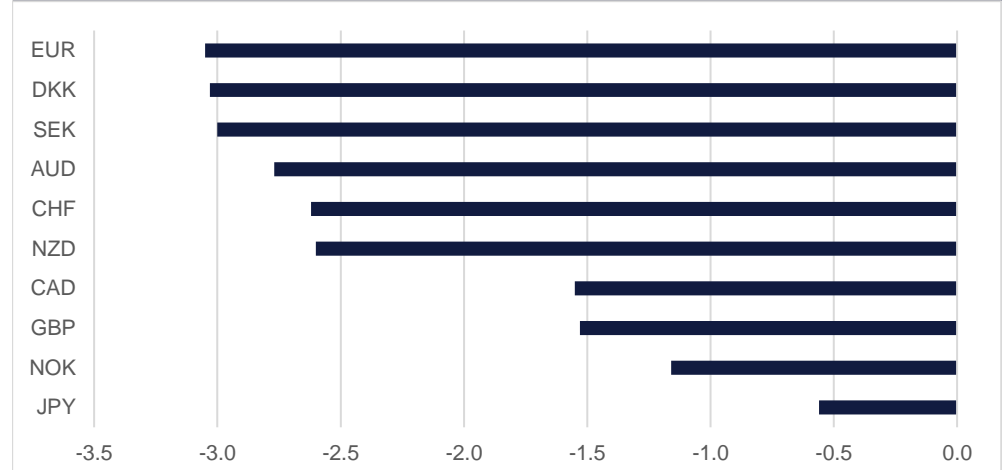
By the end of last week, stocks had unwound gains and yields had resumed declines. The dollar was also firmer, another symptom of renewed tension and risk aversion in markets. The USD rose against all G10 currencies with the EUR seeing the biggest fall, down by 3.0% on the week. The dollar's DXY index started the week at 98.365, and rallied more than 2% to close at 100.677. While bond yields and stocks are above the levels seen during the peak of the market panic in mid-March, uncertainty will continue to exert pressure on both, and also help to keep the USD underpinned. Our revised FX forecasts assume more USD strength in Q2 before softness resumes in H2.

As well as the ongoing market focus on healthcare related issues, economic data is starting to rise in prominence again and another week of jobless claims data will surely provide another test for sentiment, with markets hoping for a slowing in the pace of job losses. U.S. CPI Inflation data is also due out later in the week and are expected to reflect both the deflationary impact from the pandemic and the hit from the huge drop in oil prices in March. Consumer confidence data will also be watched closely, as will any further progress on the rolling out of the USD2.2 trillion fiscal relief package, with around USD5.4bn in loans to companies already announced last Friday.

It is also a holiday shortened week across many developed countries, with most of Europe closed on Friday as well as the following Monday. With extended lockdowns stretching out through April there are some tentative signs that these measures are starting to slow the spread of the virus. However, it is still too early to say how and when restrictions will be lifted, and as such the economic data is likely to continue reflecting worsening conditions for some time to come.

IHS Markit said its monthly composite PMI data points to an annualized contraction of about 10% in the Eurozone, and the UK also experienced a similar negative assessment, with the PMI index for the UK services sector falling to 34.5 last month, the steepest decline since the survey began in 1996. Negative prospects for both economies are likely to keep the EUR and GBP under pressure. A Eurogroup meeting on Tuesday should provide some details of how the European Stability Programme (ESM) will be used to finance the fiscal response to the crisis, but probably only a small part of it. Meanwhile Asia's calendar features central bank decisions from South Korea's and Australia, with the Bank of Korea seen cutting rates but the RBA holding rates steady near to zero.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

FX Forecasts

| FX Forecasts – Major | | | | | Forwards | | | |
|----------------------|---------|---------|---------|---------|----------|---------|---------|---------|
| | 3-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | 3m | 6m | 12m |
| EURUSD | 1.0801 | 1.0500 | 1.1000 | 1.1200 | | 1.0830 | 1.0856 | 1.0911 |
| USDJPY | 108.55 | 107.00 | 110.00 | 112.00 | | 108.26 | 108.01 | 107.49 |
| USDCHF | 0.9773 | 0.9600 | 1.0000 | 1.0000 | | 0.9741 | 0.9710 | 0.9647 |
| GBPUSD | 1.2269 | 1.2000 | 1.3000 | 1.3500 | | 1.2280 | 1.2285 | 1.2292 |
| AUDUSD | 0.5997 | 0.6000 | 0.6000 | 0.5900 | | 0.5999 | 0.5999 | 0.5997 |
| NZDUSD | 0.5878 | 0.6000 | 0.5800 | 0.5800 | | 0.5873 | 0.5868 | 0.5860 |
| USDCAD | 1.4205 | 1.400 | 1.3800 | 1.3500 | | 1.4190 | 1.4182 | 1.4174 |
| EURGBP | 0.8794 | 0.8750 | 0.8462 | 0.8296 | | 0.8810 | 0.8828 | 0.8868 |
| EURJPY | 117.13 | 112.35 | 121.00 | 125.44 | | 117.13 | 117.13 | 117.13 |
| EURCHF | 1.0562 | 1.008 | 1.1000 | 1.1200 | | 1.0555 | 1.0547 | 1.0532 |
| | | | | | | | | |
| | 3-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | 3m | 6m | 12m |
| SAR | 3.7631 | 3.7500 | 3.7500 | 3.7500 | | 3.7620 | 3.7628 | 3.7668 |
| AED | 3.6731 | 3.6730 | 3.6730 | 3.6730 | | 3.6751 | 3.6774 | 3.6809 |
| KWD | 0.3112 | 0.3020 | 0.3020 | 0.3020 | | 0.3109 | 0.3115 | - |
| OMR | 0.3851 | 0.3850 | 0.3850 | 0.3850 | | 0.3895 | 0.3944 | 0.4045 |
| BHD | 0.3789 | 0.3770 | 0.3770 | 0.3770 | | 0.3761 | 0.3761 | 0.3785 |
| QAR | 3.6687 | 3.6400 | 3.6400 | 3.6400 | | 3.6660 | 3.6630 | 3.6580 |
| EGP | 15.7506 | 15.7500 | 16.0000 | 16.0000 | | 16.4742 | 17.1300 | 18.2400 |
| INR | 76.195 | 75.000 | 73.000 | 71.000 | | 78.7400 | 79.5600 | 81.1100 |
| CNY | 7.0915 | 7.2000 | 7.2000 | 7.2000 | | 7.1153 | 7.1333 | 7.1708 |
| SGD | 1.4393 | 1.40 | 1.40 | 1.35 | | 1.4371 | 1.4352 | 1.4347 |
| | | | | | 3.7503 | | | |
| | 3-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | | | |
| MAD | 10.3006 | 10.5000 | 10.5000 | 10.0000 | | 10.3437 | 10.3972 | 10.3995 |
| TND | 2.9182 | 3.0000 | 3.2000 | 3.0000 | | 2.9932 | 3.0682 | 3.2182 |
| TRY | 6.7309 | 6.9000 | 7.0000 | 6.7000 | | - | - | - |

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

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