

TUE 24 MARCH 2020 07:30

Daily FX Report

EUR / USD

In its monthly report, the Bundesbank stated that a pronounced German recession is unavoidable with recent surveys suggesting that German companies are now suffering significantly. The RKI institute stated that there were some signs that the exponential upward curve in German coronavirus cases was flattening and the rate of new infections in Italy also slowed slightly, but markets remained fearful over the impact as the overall number of European cases continued to increase sharply.

At the New York open, the Federal Reserve announced another major package of measures to help protect the economy and ease funding pressures. The central bank launched a very aggressive increase in its bond purchases with expectations that it will buy \$75bn in Treasuries and \$50bn in Mortgage-backed securities every day this week. There were further technical measures to bolster credit with the central bank vastly increasing its role as lender of last resort.

The dollar did lose ground following the announcement with the Euro moving above the 1.1800 level. As has been the case with other Fed measures, however, the impact was short-lived with the US currency securing fresh gains during New York trading as the demand for cash remained strong.

According to the flash data, Euro-zone consumer confidence declined to -11.6 in March from -6.6 previously, although this was stronger than consensus forecasts.

The outbreak continued to intensify in the US with New York cases increasing over 5,500 to over 20,000. The dollar was resilient, but the Euro closed above 1.0700 as it recovered from 3-year lows. G7 central bank officials and Finance Ministers will hold a conference call on Tuesday with further support measures likely. The latest PMI business sentiment data for the Euro-zone and US will also be released in Europe with sharp declines expected for the month. As pressures in funding markets eased and liquidity improved following the latest Fed move, the dollar retreated from 3-year highs with the Euro above 1.0800 as commodity prices also rallied.

JPY

Evidence from Global equities lost ground ahead of the New York open, but the yen was unable to derive strong support as liquidity issues continued to support the US currency. US Treasuries also made strong gains following the Fed move with the 10-year yield declining to around 0.75%.

The dollar dipped below 110.00 following the Fed move to expand the bond-purchase programme, but quickly regained ground to trade above the 111.00 level.

Negotiations continued during the day with Congress attempting to find agreement on a new fiscal support bill. There were reports after the New York close that the bill could equate to \$2.5trn and that differences were narrowing within the Senate. Expectations that a vote could be held on Tuesday helped underpin risk appetite as swap spreads narrowed. Japan's preliminary March PMI manufacturing index declined to 44.8 from 47.8 previously with a slide in services to 32.7 from 46.8. US equity futures made sharp gains amid signs that market pressures were easing and the dollar retreated to near 110.00 before settling around 110.35.

GBP

Overall confidence in the UK outlook continued to deteriorate during the day on domestic and international factors. After weekend reports of widespread flouting of the new social distancing recommendations, there was increased speculation that the government would be forced to issue even more draconian measures. There was also some concern that the City of London could face significant disruption which would further undermine the economic outlook.

The latest household survey reported a decline in job security to 8-year lows with the data collected between March 12-17th before the latest restrictions took effect.

After early gains reversed, Sterling retreated steadily with lows below 1.1500 against the dollar in US trading. The Euro also posted sharp gains to the 0.9350 area. After the US close, Prime Minister Johnson announced a further crackdown on people leaving homes in order to minimise the spread of coronavirus with all non-essential retail outlets ordered to close. The UK currency edged higher on hopes that the measures would lessen the overall death toll, although overall sentiment inevitably remained fragile as the economy will inevitably decline further. Sterling rallied to near 1.1650 on Tuesday as the dollar dipped with the Euro around 0.9280.

CHF

The latest National Bank data recorded an increase in sight deposits to CHF608.8bn from CHF603bn previously, confirming an increased pace of intervention to prevent franc gains and the fastest pace of intervention since 2016. The Swiss franc was unable to gain significant support during Monday as fears over the domestic coronavirus outbreak increased. The Euro made net gains to the 1.0580 area and, although the dollar failed to make headway, the Swiss currency under-performed sharply in comparison to gold which advanced over 5% on the day. The franc was slightly stronger on Tuesday with the dollar close to the 0.9800 level.

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.1000 | 112.00 | 1.1850 |
| Resistance 2 | 1.0925 | 111.35 | 1.1770 |
| Resistance 1 | 1.0850 | 110.70 | 1.1700 |
| | 1.0825 | 110.50 | 1.1640 |
| Support 1 | 1.0780 | 110.00 | 1.1630 |
| Support 2 | 1.0700 | 109.35 | 1.1570 |
| Support 3 | 1.0635 | 108.70 | 1.1500 |

Risk warning

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