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Daily FX Report

EUR / USD

The IMF issued a new set of forecasts with global GDP now expected to decline 3.0% for 2020, the worst decline for close to 90 years as global lockdown measures took effect. The Euro-zone economy overall is forecast to contract 7.5% with a decline of over 9.0% for Italy.

ECB member Vasilauskas, the Lithuanian member, commented that now is the right time for coronabonds, but there will still be strong opposition within the Dutch and German governments and political tensions will continue to undermine confidence in the outlook.

The US dollar gradually lost traction during Tuesday, primarily under the influence of increased confidence that lockdown measures would be relaxed soon. As risk appetite remained stronger, defensive demand for the US currency faded, especially with liquidity.

US import prices declined 2.3% for March with a 0.7% annual decline, reinforcing short-term downward pressure on the inflation rate. The IMF forecasts a 2020 US GDP decline of 5.9%. Overall, there was only a limited reaction to economic projections as markets tended to focus on liquidity issues.

As the dollar lost support, the Euro eventually secured significant gains to the 1.0970 area around the European close with the dollar edging lower again later in New York. The Euro was held below 1.1000 and edged lower on Wednesday with the dollar recovering slightly from 2-week lows as commodity currencies retreated.

The latest US retail sales data will be released on Wednesday with expectations of a sharp 8.0% headline monthly decline for March. There will also be reports on New York manufacturing conditions, industrial production and the housing sector as the Euro traded around 1.0975 in early Europe.

JPY

US equity markets moved notably higher in early New York trading as risk appetite remained firm, although the US currency failed to benefit and the Japanese currency also proved resilient. During the New York session, the US currency declined to lows just above 107.00 while the Euro traded with net losses to the 117.40 area.

Evidence of divisions within the US continued to unsettle the US dollar with New York Governor Cuomo rebutting President Trump's assertion that he had total authority over lockdown measures. White House economic adviser Kudlow stated that the business loan programme could run out of funds this week, reinforcing pressure on Congress to initiate further support measures, but President Trump continued his push to get restrictions lifted by the beginning of May, maintaining underlying confusion. The number of US coronavirus-related deaths increased further, but there was a slowdown in the number of new cases.

China's central bank cut its MLF lending rate to a record low of 2.95% from 3.15%, reinforcing expectations that there will be a cut in the prime rate later this month. Equity markets were unable to make further headway on Wednesday with the yen holding a firm tone and the dollar was held just above 107.00.

GBP

In a special report, the Office of Budget Responsibility (OBR) projected that the UK GDP would decline 35.1% in the year to June under an assumption that the lockdown lasted 3 months. There would be a sharp recovery for the third quarter, but 2020 growth was liable to contract 12.8%. The unemployment rate was liable to hit 10% while the budget deficit would increase to £273bn and 14% of GDP. The IMF also forecast that the UK economy would contract 6.5% this year.

It is testament to the extraordinary times in that Sterling reaction to the forecasts was notably limited.

The UK currency continued to benefit from the stronger tone in global risk appetite amid hope that countries could now see the path towards exiting lockdown measures in major economies. Sterling overall moved higher in tandem with commodity currencies despite unease over domestic economic trends

Sterling pushed to highs above 1.2600 against the weaker US dollar with the Euro dipping below 0.8700. There was a limited correction on Wednesday as gains in global equity markets stalled with expectations of an extended lockdown in the UK also reinforcing economic fears as the currency traded just below 1.2600.

CHF

Swiss sight deposits increased to CHF634.1bn in the latest week from CHF627.2bn the previous week, confirming that the National Bank had continued to intervene in the latest week. In this context, the bank will be concerned over the lack of impact in reversing franc gains, especially as risk appetite has been robust. The Euro was again unable to make headway on Tuesday and actually weakened slightly to the 1.0540 area while the dollar retreated to test the 0.9600 area. The Swiss currency maintained a firm tone on Wednesday with the dollar just above the 0.9600 level and the Euro around 1.0550 as equity markets edged lower.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.1130	108.80	1.2770
Resistance 2	1.1070	108.20	1.2700
Resistance 1	1.1000	107.65	1.2635
	1.0970	107.05	1.2590
Support 1	1.0930	107.00	1.2570
Support 2	1.0870	106.35	1.2500
Support 3	1.0800	105.70	1.2435