

**LEE HARDMAN**  
*Currency Analyst*

Global Markets Research  
 Global Markets Division for EMEA  
 T: +44 (0)20 7577 1968  
 E: [lee.hardman@uk.mufg.jp](mailto:lee.hardman@uk.mufg.jp)

# Conditions remain challenging for oil-related & EM FX even as USD softens

30<sup>th</sup> March 2020

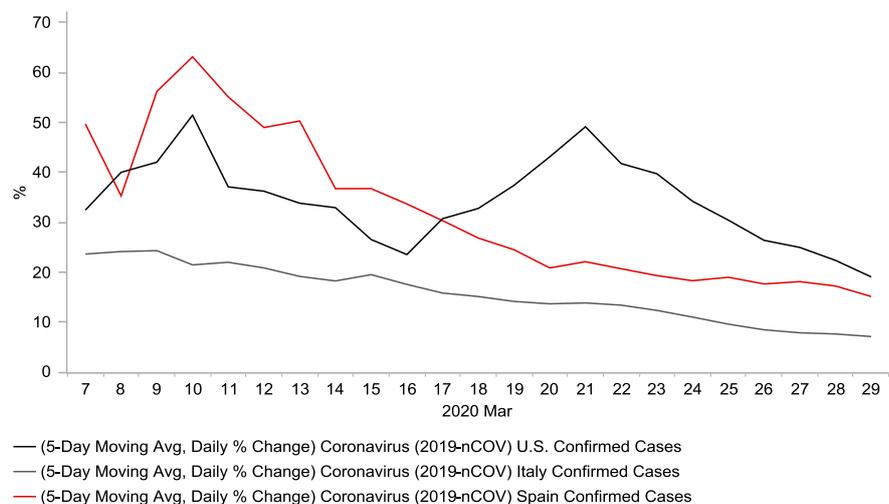
**MUFG Bank, Ltd.**  
 A member of MUFG, a global financial group

## EM & Oil FX: Risks remain tilted to the downside

The US dollar has strengthened during the Asian trading session alongside other low yielding safe haven currencies such as the yen. Trading conditions overnight have exhibited a more risk off tone with the sell-off in US equity markets at the end of last week following on into the Asian trading session. Weakness has been most acute though in the price of oil which has continued to fall to new lows of USD23.03/barrel for Brent while WTI holds at USD20/barrel. It has triggered another sell-off in oil-related currencies especially in the Norwegian krone. We had cautioned in our latest FX Weekly ([click here](#)) that last week's sharp relief rebound for the krone was built on shaky foundations.

High yielding emerging market currencies have also underperformed overnight. The rand has been hit hard by the announcement from Moody's that it has finally decided to strip South Africa of its last remaining investment grade rating. USD/ZAR jumped above the 18.000-level hitting a new record high of 18.086 overnight. The rand has now lost around a fifth of its value since the start of this year. South Africa's bond

## GROWTH IN NEW COVID-19 CASES IS SLOWING



Source: Bloomberg, Macrobond & MUFG GMR

market had already experienced record capital outflows this month prior to the credit downgrade which will be reinforced further by Moody's decision. Moody's noted that the key driver behind the rating downgrade was the continuing deterioration in fiscal strength and structurally very weak growth. South Africa's economy had already fallen back into recession prior to the negative COVID-19 shock that will now make it both deeper and longer. The loss of South Africa's investment grade rating had become almost inevitable and it was always more a matter of timing.

In other news over the weekend, the PBoC has taken another step to loosen monetary conditions by lowering the rate at which it lends to banks. The PBoC lowered its 7-day reverse repo rate from 2.40% to 2.20%. It is the largest rate cut since 2015 and lowers the reverse repo rate to a new record low. Short-term repo rates have already fallen notably since the start of this year and are expected to fall further in the coming months as the PBoC continues to ease policy. The renminbi has remained relatively stable against the US dollar during the COVID-19 shock with USD/CNY currently trading just below the 7.1000-level. Market participants will be watching closely in the coming days for the release of the latest PMI surveys from China for March. The surveys are expected to show some improvement in business sentiment after the plunge to record lows in February as activity in China's economy gradually picks back up again.

#### **USD: Fed policy measures prove effective at reversing USD surge**

The US dollar is coming off the back of its worst week since the Plaza Accord in September 1985 against other major currencies. The dollar index declined sharply by 4.3% last week on a closing price basis. Remarkably it leaves the US dollar largely unchanged in value against the other major currencies since the COVID-19 shock hit. However, it has been a volatile period for the US dollar. There have been four main phases of US dollar performance since the COVID-19 shock hit. Firstly, the dollar index strengthened by around 2% between 5<sup>th</sup> February and 20<sup>th</sup> February. Secondly, the dollar index fell sharply by around 5% between 21<sup>st</sup> February and 9<sup>th</sup> March. Thirdly, the dollar index surged higher by around 8.5% between 10<sup>th</sup> March and 20<sup>th</sup> March. Fourthly, the dollar index has since declined sharply again by just over 4% since the 20<sup>th</sup> March.

The current US dollar sell off has been triggered mainly by the powerful policy response from the Fed which has helped to ease tightening US dollar liquidity conditions at least in the near-term. In a sign that the Fed's bold policy response is proving effective they have announced that they will moderate the extraordinary pace of US Treasury bond purchases towards the end of this week, although the size of purchases will remain huge in scale. More specifically, the Fed announced that they will continue to purchase USD75 billion of US treasury bonds/day through Wednesday, but the pace of purchase will then drop to USD60 billion later in the week. MBS purchases will also step down to USD40 billion/day this week from last week's run rate of USD50 billion/day. The Fed's efforts have helped to push US yields back towards record lows following the brief sell-off in the UST bond market between the 9<sup>th</sup> March and 19<sup>th</sup> March.

The volatile nature of US dollar performance in recent months has made it even more challenging to forecast performance. There is scope for the current stage of US dollar weakness to extend further in the near-term although we would caution that one should not be complacent in believing the policy measures taken to date will result in a further retracement of USD strength ([click here](#)). Uncertainty simply remains too high with downside risks to the global growth outlook and financial stability still in place. In a stark shift from two weeks ago, President Trump has warned that social distancing measures in the US will have to remain in place until at least 30<sup>th</sup> April.

## KEY RELEASES AND EVENTS

Country	GMT	Indicator/Event	Period	Consensus	Previous	Mkt Moving
SZ	08:00	KOF Leading Indicator	Mar	85.0	100.9	!!
SZ	09:00	Total Sight Deposits CHF	Mar-27	--	608.8b	!!
UK	09:30	Mortgage Approvals	Feb	68.5k	70.9k	!!
UK	09:30	M4 Money Supply YoY	Feb	--	4.7%	!!
EC	10:00	Economic Confidence	Mar	91.6	103.5	!!
GE	13:00	CPI EU Harmonized YoY	Mar P	1.3%	1.7%	!!
US	15:00	Pending Home Sales MoM	Feb	-2.0%	5.2%	!!
US	15:30	Dallas Fed Manf. Activity	Mar	-10	1.2	!!

Source: Bloomberg

## CERTIFICATION

The author(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple authors are responsible, individually certify with respect to each security that the author covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

## DISCLAIMERS

## DISCLAIMERS

This report has been prepared by the Global Markets Research, US Rates and Credit Strategy desks within MUFG Bank, Ltd. ("MUBK") and MUFG Securities EMEA plc ("MUS(EMEA)") and may be distributed to you either by MUBK, MUS(EMEA) or by another subsidiary of the Mitsubishi UFJ Financial Group ("MUFG").

### Legal entities and branches

The securities related businesses within MUFG (together referred to in this presentation as "MUFG Securities") are: (1) MUFG SECURITIES EMEA PLC ("MUS(EMEA)") which is authorised in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (FS Registration Number 124512). MUS(EMEA) has a branch office that is registered at Level 3, East Wing, The Gate, Dubai International Financial Centre, PO Box 506894, Dubai, UAE ("Dubai Branch"). The Dubai Branch is authorised to operate in the Dubai International Financial Centre ("DIFC") as a Non-DIFC Entity (Commercial License Number CL1656) and is regulated by the Dubai Financial Services Authority (Reference Number F002623); (2) MUFG Securities (Europe) N.V. ("MUS (EU)") which is authorized and regulated in the Netherlands by the Dutch Authority for the Financial Markets (AFM) and also regulated by De Nederlandsche Bank (DNB). MUS (EU) Paris Branch is regulated in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and the Autorité des marchés financiers (AMF); (3) MUFG SECURITIES AMERICAS INC. ("MUSA") which is registered in the United States with the Securities and Exchange Commission ("SEC") and regulated by the Financial Industry Regulatory Authority ("FINRA") (SEC# 8-43026; CRD# 19685); (4) MUFG SECURITIES (CANADA), LTD. ("MUS(CAN)") is an investment dealers registered in Canada with the Ontario Securities Commission ("OSC") and in each province and territory of Canada, a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), and a member of the Canadian Investor Protection Fund ("CIPF"). Customers' accounts are protected by CIPF within the specified limits; (5) MUFG SECURITIES ASIA LIMITED ("MUS(ASIA)") which is incorporated in Hong Kong, licensed under the Hong Kong Securities and Futures Ordinance and regulated by the Hong Kong Securities and Futures Commission (Central Entity Number AAA889). MUS(ASIA) is registered as a foreign company under the Corporations Act 2001 of Australia ARBN No. 169 329 453; and (6) MUFG Securities Asia (Singapore) Limited ("MUS(SPR)") which is licensed as an approved merchant bank by the Monetary Authority of Singapore. In respect of the financial services provided to wholesale clients in Australia, MUS(ASIA), MUS(EMEA), MUS(USA) and MUS(SPR) are each exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 of Australia under the Australian Securities and Investments Commission Class Order Exemption CO 03/1099, CO 03/1103, CO 03/1100, and CO 03/1102, respectively. Each of MUS(ASIA), MUS(EMEA), MUSA, MUS(CAN), and MUS(SPR) are regulated under the laws of Hong Kong, the United Kingdom, the United States, Canada and Singapore respectively, which differ from Australian laws.

MUFG Bank Ltd ("MUBK"), is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUBK's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUBK's London branch is at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, and is registered as a UK establishment in the UK register of companies (registered no. BR002013). The principal office of MUBK's Canada branch (MUFG Bank, Ltd., Canada Branch) is located at 200 Bay Street, Suite 1800, Toronto, Ontario, M5J 2J1, Canada. MUFG Bank's Canada branch is an authorized foreign bank branch permitted to carry on business in Canada pursuant to the Bank Act (Canada); Deposits with MUFG Bank Canada are not insured by the Canada Deposit Insurance Corporation. MUBK is authorised and regulated by the Japanese Financial Services Agency. MUBK's London branch is authorised by the UK Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") with limited regulation by the PRA.

### General disclosures

This report is for information purposes only and should not be construed as investment research as defined by MIFID 2 or a solicitation of any offer to buy or sell any security, commodity, futures contract or related derivative (hereafter "instrument") or to participate in any trading strategy. This report does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients. Recipients should therefore seek their own financial, legal, tax or other advice before deciding to invest in any of the instruments mentioned in this report.

Certain information contained in this report has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. MUFG does not make any guarantee, representation, warranty or undertaking, express or implied, as to the fairness, accuracy, reliability, completeness, adequacy or appropriateness of any information or comments contained in this report. Furthermore the information may not be current due to, among other things, changes in the financial markets or economic environment. MUFG has no obligation to update any such information contained in this report.

The information contained in this report may contain forward-looking information ("FLI"). FLI is information regarding possible events, conditions, or results of operations that is based on assumptions about future economic conditions and courses of action and may be presented as either a forecast or a projection. This report is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Upon receipt of this report, each recipient acknowledges and agrees that any FLI included herein should not be considered material. Recipients should consult their own legal and financial advisers for additional information. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size.

This report is proprietary to MUFG and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this material.

### Country and region specific disclosures

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. Each entity and branch within MUFG is subject to distinct regulatory requirements and certain products and services discussed in this document may not be available in all jurisdictions or to all client types.

In this regard, please note the following in relation to the jurisdictions in which MUFG has a local presence:

- United Kingdom / European Economic Area (EEA): This report is intended for distribution to a "professional client" or "eligible counterparty" as those terms are defined in the rules of the FCA and PRA. In other EEA countries, this report is intended only for persons regarded as professional investors (or equivalent) in their home jurisdiction.
- United States of America: This report, when distributed by MUSA, is intended for Institutional Investors ("Institutional Accounts" as defined by FINRA Rule 4512(c)). When distributed by a non-US affiliate of MUSA, this report is intended for distribution solely to "major U.S. institutional investors" or "U.S. institutional investors" pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. Securities referenced in this report may have been underwritten by MUSA and/or its affiliates. Nothing in this report should be considered an offer or solicitation of an offer to buy or sell securities or any other financial product or a commitment of any kind with respect to any transaction.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUSA of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

- Hong Kong: This report is only intended for distribution to a "professional investor" as that term is defined in the Securities and Futures Ordinance and should not be passed onto any other person.

- Singapore: This report is only intended for distribution to an "institutional investor", "accredited investor" or "expert investor" as those terms are defined under regulation 2 of the Financial Advisers Regulation. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. Investors should note that, as a result of exemptions that apply when this report is distributed to "accredited investors" and "expert investors", MUSS is exempt from complying with certain requirements under the Financial Advisers Act, including section 25 of the Financial Advisers Act (which requires a financial adviser to disclose all material information on certain investment products), section 27 (which requires a financial adviser to have a reasonable basis for making recommendations on investments) and section 36 (which requires a financial adviser to disclose any interests that it holds in securities that it recommends).

- Canada: When distributed in Canada by MUS(EMEA) or MUSA. MUS(EMEA) operates under an International Dealer Exemption from registration with the securities regulators in Alberta, British Columbia, Manitoba, Ontario and Québec. MUSA operates under an International Dealer Exemption from registration with the securities regulators in all Canadian Provinces and Territories. When distributed by MUS(EMEA) or MUSA, this report is only intended for a "permitted client" as that term is defined under the National Instrument 31-103 in Canada and is not intended for re-distribution to any other person. When distributed by MUS(CAN), this report is only intended for an "institutional client" as that term is defined under the IIROC dealer member rules and is not intended for re-distribution to any other person. The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Under no circumstance is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. • Japan: This Note, when distributed by MUFG Securities affiliates located outside of Japan, is intended for distribution in accordance with Article 58-2 of the Financial Instruments Exchange Act 1948 ("FIEA") i) to a "Financial Instruments Business Operator" engaged in "Securities-Related Business" as defined in the FIEA or ii) to the government, the Bank of Japan, a qualified financial institution defined in Article 209 of the Cabinet Office Ordinance Concerning Financial Instruments Business, Etc., or an Investment Manager.

When distributed by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS"), this Note is intended for distribution to a "Professional Investor (tokutei-toushika)" as defined in the FIEA.

- United Arab Emirates: This report is only intended for distribution to a "Professional Client" or "Market Counterparty" as those terms are defined under the rules of the Dubai Financial Services Authority and only a person meeting the criteria for these terms should act upon this report.

- Australia: This Note is only intended for distribution to persons in Australia who are sophisticated or professional investors for the purposes of section 708 of the Corporations Act of Australia, and are wholesale clients for the purposes of section 761G of the Corporations Act of Australia. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

Other jurisdictions:

MUFG Securities also relies on local registrations or regulatory exemptions in order to undertake certain securities business in other countries. In Thailand, MUS(EMEA) has a derivatives dealer registration with the Securities and Exchange Commission, Thailand. In Canada, MUS(EMEA) and MUSA each operate under an international dealer exemption registered with the securities regulators. MUS(EMEA) operates under the exemption in Alberta, Quebec, Ontario, British Columbia and Manitoba. MUSA operates under the exemption in all Canadian Provinces and Territories..