

DATA DISPATCH

US dollar slips against peers in April as stocks rally, central banks act

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By Brian Scheid
Market Intelligence

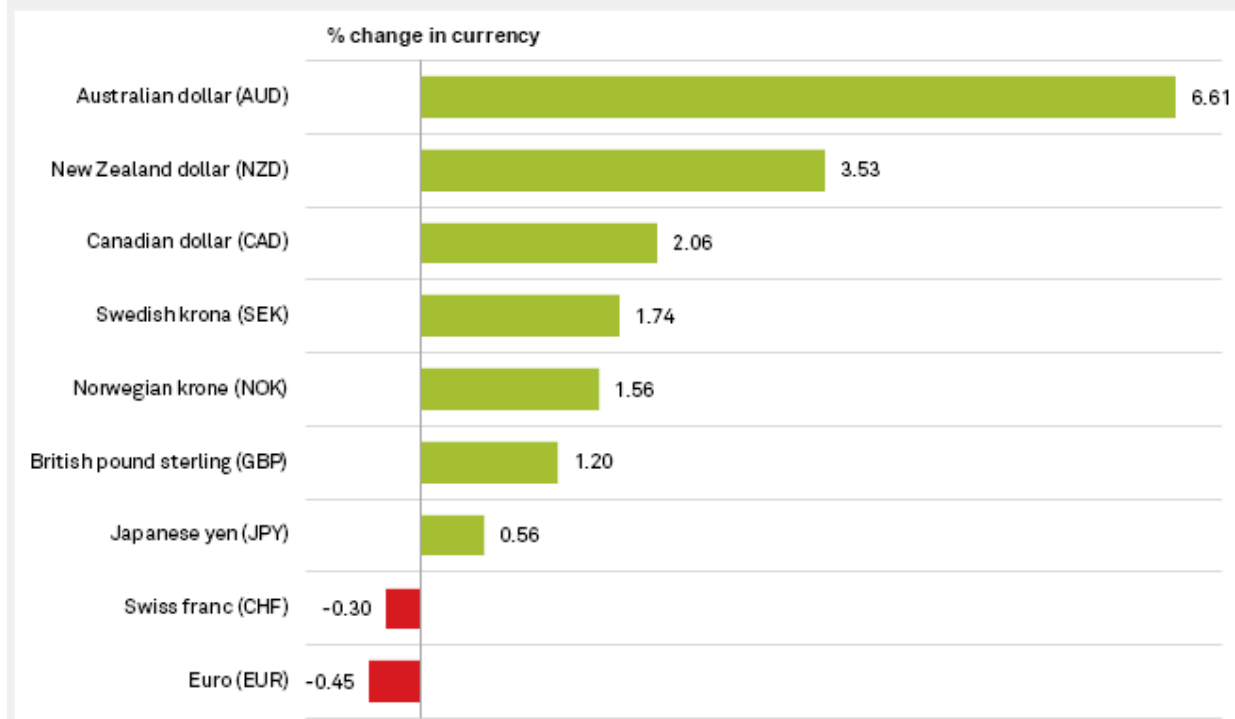
The U.S. dollar lost ground against nearly all developed-market currencies in April, reversing the trend of the previous three months as U.S. stocks rallied from their March low and major central banks cut rates and moved to bring liquidity to markets to curb the economic effects of the coronavirus.

"The sheer scale of the policy responses, mainly from the Fed in March, helped to dampen financial market volatility and helped improve risk-taking," said Derek Halpenny, head of research for EMEA global markets at MUFG. "With non-dollar currencies hit so hard in March, there was scope for recovery."

The Dollar Index, which measures the dollar against a basket of nine developed-market currencies, was roughly flat in April, but it posted losses against every G-10 currency except the euro and Swiss franc, according to S&P Global Market Intelligence data.

Monthly G10 currency tracker

Month ended April 30, 2020



Data compiled May 5, 2020.
Base currency: U.S. dollar.
Source: S&P Global Market Intelligence

"I think the key point here is that in April we saw a further unwinding of the fears around dollar funding and market functioning, largely thanks to the activeness of global central bank ... in providing adequate liquidity," said Francesco Pesole, a foreign-exchange strategist with ING.

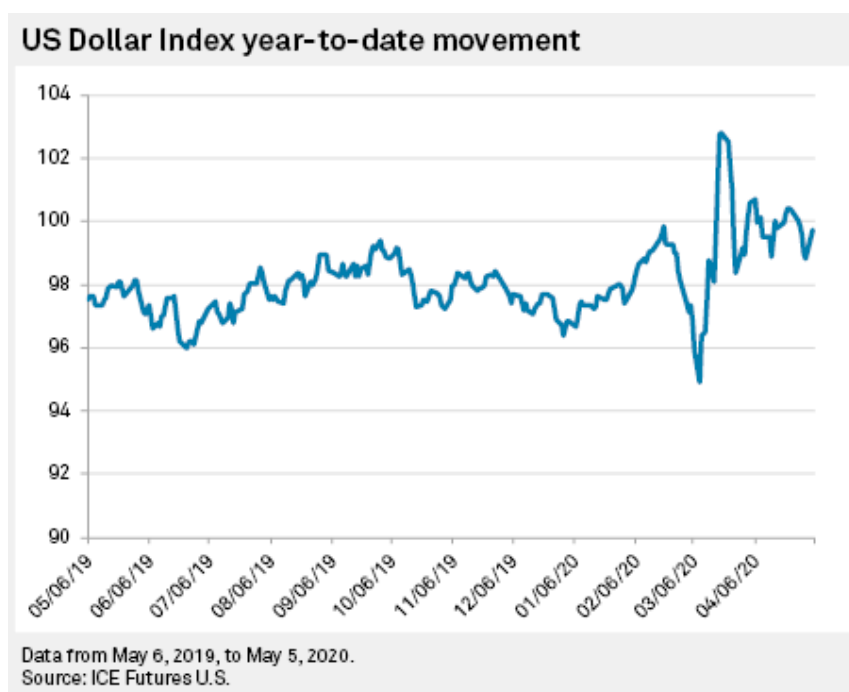
For the first three months of 2020, the dollar strengthened aggressively against nearly all of its G-10 peers, and as economic fears surrounding the coronavirus boiled over in March, only the Japanese yen and Swiss franc had outperformed the U.S. dollar on the month.

In April, the idea of a "peak" in coronavirus contagion curves flourished in the market, motivating an investor view that the worst of the pandemic may have passed, Pesole said.

"The combination of these factors created a risk-benign environment ... where equities rebounded and the [U.S. dollar], having taken the role of quintessential safe haven in G10, inevitably depreciated," Pesole said.

The S&P 500 saw 12.7% growth in April, its best month since January 1987, when it grew 13.2%.

The Dollar Index fell as low as 94.90 on March 9 as stocks staged a rally and then peaked at 102.82 on March 20 amid a market crash. The Dollar Index was trading at 100.07 on May 6, up 0.36 from the May 5 close.



The Australian dollar and the New Zealand dollar saw the biggest gains against the dollar in April, rising 6.61% and 3.53%, respectively. These two lost the most ground to the U.S. in February and March as coronavirus risk entered the global market.

"This is because they both have a high-beta to global risk appetite and because of the links of the two economies with China," Pesole said. "China got out of the health crisis before Western economies, and demand for exports [from Australia and New Zealand] has proven more resilient than expected."

The Australian and New Zealand dollars were bolstered in April by optimism that their economies would quickly rebound from the pandemic relative to other nations.

"Both countries saw very positive COVID trends develop in April that removed risks of a prolonged and damaging lockdown period," Halpenny said.

But gains made by G-10 currencies against the dollar in April tell a misleading story as a flight to safety is likely to be the dominant market narrative amid the pandemic, said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University in Atlanta.

"Looking month to month doesn't give you the big picture," Dhawan said.

On the year, every G-10 currency except the Japanese yen and the Swiss franc, both viewed as safe-harbor currencies, have lost ground to the U.S. dollar.



The Norwegian krone has lost 15.12% to the U.S. dollar on the year, the most of any G-10 currency. This is largely due to the impact of historically low crude oil prices on Norway, a major petroleum producer, Dhawan said.

April's gains by G-10 currencies against the U.S. dollar could be quickly reversed, Halpenny said.

"We still see risks of the dollar rebounding over the short-term," Halpenny said. "A lot of good news is priced into equity valuations and any disappointment in relation to COVID lockdowns that lifts expectations of a second wave could hit confidence and lift the dollar. Later in the year, we see more sustainable conditions for dollar depreciation."

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