Good Morning,

Yesterday we saw the latest round of weekly jobless claims numbers which came in just shy of two million, in line with expectations. Today we will get additional insight into the labor market with the monthly jobs report at 8:30am Eastern Time. Markets are expecting to see a 7.5 million decrease in nonfarm payrolls and an unemployment rate of 19.0 percent – numbers that were unprecedented just a few months ago. Despite the massive job losses and broader economic downturn, risk-on sentiment has returned to the markets in recent weeks as economies around the globe have begun to reopen from the coronavirus shutdowns. The change in tone has been evident in equities, with the S&P 500 surging over 10 percent in just the last three weeks. The optimism has also been felt in the FX market. At the height of the coronavirus sell-off in mid-March, the US dollar had surged to fresh highs against most of its major peers as a flight to safety sparked demand for dollars. In recent weeks, however, the US dollar has given up a good portion of those gains. Let’s recap the moves we have seen in a few of the major currencies.

When the coronavirus gripped markets in late February, the euro initially rallied as the prospect of further interest rate cuts from the Federal Reserve indicated a narrowing of the US dollar’s interest rate premium over the euro. However, that rally turned out to be short-lived as the euro sharply retreated as demand for US dollars soared throughout March at the height of the market volatility. The euro remained at relatively weak levels throughout April and the beginning of May as markets remained largely risk-off. In recent weeks, sentiment has shifted decidedly risk-on and the euro has surged 4.8 percent since May 15th. The euro currently sits near its strongest levels of the past 12 months.

The Canadian dollar has also clawed back a good portion of its losses in recent weeks. The Canadian dollar plummeted 9.4 percent from February 20th through March 19th as the coronavirus roiled markets and oil prices plunged. Since that time, the Canadian dollar has gained 7.0 percent as oil prices have stabilized and coronavirus fears have subsided. The Canadian dollar still remains relatively weak when compared to its 2019 range, but it is trading back at familiar levels.

The Mexican peso, which tends to serve as a proxy for emerging markets, has been major beneficiary of the recent risk-on sentiment. At the beginning of this crisis, the peso fell dramatically as risk-assets were sold off. The peso plummeted 36.6 percent against the US dollar from February 20th through March 23rd when it reached its lowest level of all time. Since then, the peso has appreciated 13.6 percent, with the majority of those gains coming in just the past three weeks. With that said, the peso still sits at historically weak levels – weaker than at any point prior to this crisis.

Have a great weekend!

Brian Fitzpatrick