Dollar falls as yuan leads charge in risk-on trades

Coronavirus remains a risk to sentiment

TOKYO: The dollar fell against most currencies yesterday as a rally in riskier assets such as global equities and commodities put a dent in safe-haven demand for the US currency. China's yuan rose to a four-month high against the greenback, extending recent gains as investors of all stripes increase positions in Chinese stocks due to growing signs of a recovery in the world's second-largest economy.

Lingering worries about the spread of the coronavirus could keep some currency pairs in a tight range, but the dollar's losses are gradually increasing as sentiment favors riskier bets on long-term economic growth. "Rising stocks and a dip in Treasury yields are slight negatives for the dollar, but the market can't move too far because we still have to worry about the virus," said Minori Uchida, head of global market research at MUFG Bank. "A lot of major US economic data have been positive, so this will be less of a trading factor going forward. People are looking for cues from stocks, yields, and hedging costs."

Against the euro, the dollar fell 0.3% to $1.1365, reaching a one-month low. The euro could get a further boost later in the day as Germany is scheduled to release export data. Economists expect shipments from the euro zone's largest economy to rebound sharply in May from a large decline in the previous month. The greenback also fell to a three-week low against the pound at $1.2637. Sterling edged up to 89.97 pence per euro. The dollar fell to a four-month low of 0.9365 Swiss franc yesterday. The dollar was little changed at 107.27 yen.

Chinese shares continued their recent rally and surged to a five-year high during the Asian session. Futures pointed to further gains in European equities, highlighting the enthusiasm for risk-on trades. Investors are also looking to US weekly jobless claims later on, but the dollar looks set to remain on the back foot until then. The onshore yuan burst past the closely watched level of 7 to reach an almost four-month high of 6.9820 per dollar. China's currency has been a star performer as investors shrug off diplomatic tension between Washington and Beijing to focus on China's improving economy and its attractive technology sector.

The yuan has risen around 2.7% from a seven-month trough against the dollar set on May 27. While some investors are reluctant to take big positions before the traditional summer holiday season amid uncertainty around the coronavirus pandemic, analysts said sentiment favors more US dollar declines as investors try to look past a recent spike in coronavirus cases in some countries. Elsewhere in currencies, the Australian dollar rose to a one-month high at $0.695. Highlighting the greenback's woes, the New Zealand dollar rose to $0.6590, the highest since late January. — Reuters

HUAIAN: An employee works on a new energy vehicle assembly line at a BYD factory in Huaian in China's eastern Jiangsu province. — AFP

'Eat out to help out'; diners get tasty morsels

LONDON: Britain launched a $625 million "Eat out to help out" discount scheme to boost spending at restaurants, cafes and pubs that have been crippled by COVID-19, offering half-priced meals from Monday to Wednesday to get people spending again. For the month of August, the scheme will entitle diners to a 50% discount of up to 10 pounds per head on their meal, finance minister Rishi Sunak said.

"This moment is unique. We need to be creative," he told parliament during a statement on the outlook for the economy. The discount can be used unlimited times in August and will be valid Monday to Wednesday, in a bid to encourage people to dine out throughout the week and not just at the weekend. It will not apply to alcohol. Britain's foodservice industry, which employed 1.8 million people before the crisis, has suffered thousands of job cuts, with layoffs announced by firms including the owners of the Caffe Ritazza and Cafe Rouge chains.

Sunak also announced a temporary cut in VAT sales tax from 20% to 5% for eat-in or hot takeaway food from restaurants, cafes and pubs. Kate Nicholls, chief executive of industry lobby group UKHospitality, welcomed the announcements. "The measures announced today are extremely positive ... and they should give many businesses in our sector much-needed help to get going again in earnest," she said. But businesses in other parts of the economy said they had been left out.

"It feels like manufacturing has been forgotten... tax reliefs for innovation, encouragement for consumer spending, industry stimulus packages, where are they?" asked Rowan Crozier, chief executive officer of Brandauer, a pressing and stamping company.

The Society of Motor Manufacturers and Traders said it was "bitterly disappointing" that Sunak stopped short of supporting the auto sector. "Of Europe's five biggest economies, Britain now stands alone in failing to provide any dedicated support for its automotive industry, a situation that will only deter future investment," SMMT chief executive Mike Hawes said. — Reuters

Bond investors wait for more headlines on EU recovery fund

AMSTERDAM: Euro zone bond yields held their ground yesterday with investors' main focus expected to be any new developments on the European Union's recovery fund, which aims to help the region's economy recover from the coronavirus crisis. Hopes are high that the 750 billion euro ($851.70 billion)fund will be approved at a European Union summit late next week. Designed to mostly offer grants to countries worst hit by the coronavirus, it has been one of the main drivers of a drop in Southern European borrowing costs led by Italy in the past few weeks.

On Wednesday, European Council President Charles Michel said the EU needed to reach an agreement quickly on the fund but much negotiation was still needed. Euro zone finance ministers will meet at 1300 GMT to select their new leader, while German Chancellor Angela Merkel and Dutch Prime Minister Mark Rutte will give a joint news conference in Berlin at 1830 GMT.

"We don't anticipate a fast agreement (little in the EU moves quickly), but would be cautious around putting too much weight on negative-sounding headlines, which are almost certain to be seen," Mizuho analysts told clients. "Instead, we stick to our expectation for a slow but inexorable grind towards a consensus relatively close to the Franco-German proposal," they said, referring to an initial proposal which offered 500 billion euros in grants before the EU added 250 billion euros in loans to its plan.

Yesterday, Germany's 10-year yield was unchanged at -0.44%, close to one-week lows, while Italian 10-year yields were also unchanged at 1.28%. On the data front, German exports rebounded 9% in May in another sign of recovering demand spurred by the lifting of lockdown measures, but rose less than the 13.8% expected in a Reuters poll. In the primary market, Ireland is due to sell between 1 and 1.5 billion euros via the sale of 7, 10 and 30-year bonds. — Reuters