FX Daily: Tentative recovery under way for the EUR

We're looking for a strong March US retail sales number today as the stimulus checks have started to come through. But it seems that the positive US inflation and growth stories are now largely priced into USD. Hence, the positive impact on USD may be limited and with UST yields well behaved, the solid US data may support G10 pro-cyclical FX today

Source: iStockphoto

USD: Looking for signs that USD positive story is priced in

We are looking for a strong March US retail sales number today as the stimulus checks have started to come through. However, following the muted USD reaction to the March inflation numbers earlier in the week, it seems that the positive US inflation and growth stories are now largely priced into USD. Hence, the positive impact on USD may be limited and with UST yields well behaved, the solid US data may support G10 pro-cyclical FX today.

The US Treasury's semi-annual FX Report should be also released in the coming days and we estimate that in 2020 Taiwan and Thailand will be added to the currency manipulator list. In

Turkey, we expect the central bank to remain on hold today. The newly appointed governor Kavcioglu signalled that there would not be a major policy reversal or an early policy rate cut which should keep the lira downside limited for now. Elsewhere, the Russian rouble was the main underperformer overnight following the reports that the US will impose further sanctions on Russia against individuals and entities, with the administration reportedly considering sanctions on new Russian debt.

EUR: Tentative recover under way

EUR/USD is close to the 1.20 psychological level and further evidence of USD losing steam today (should USD fail to benefit from the strong retail sales today) is likely to push EUR/USD higher, particularly after positioning adjustment observed so far this year.

We also note that EUR/USD still remains undervalued by almost 2%, based on our short term financial fair value model.

GBP: Still looking for a recovery

GBP weakness vs EUR seems to be fading and EUR/GBP remains below (yet close to) 0.8700.

We to look for GBP recovery to EUR/GBP 0.85 this quarter.

RON: Ruling coalition infighting no gamer changer for RON

In Romania, the political infighting within the collation weighed on RON yesterday and sent EUR/RON above the previous all-time high from late March.

We don't expect the political jitters to have a long-lasting impact on RON and expect a solution to be found eventually. Importantly, from the monetary policy perspective, it does not change much in terms of the reasons behind the expected EUR/RON stability from here.

First, RON has the highest regional FX pass-through into inflation, and with CPI above the 2.5% target, the scope for more RON weakness is limited. Second, the adjustment in EUR/RON higher in 1Q21 has largely reflected the inflation differential between Romania and EZ, meaning a limited need for further RON decline. We look for EUR/RON stability in the 4.92-93 area for the remainder of the year and like RON due it is an attractive carry.