

FX Daily: Bracing for a bumpy couple of weeks

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USD: Powell shows no concern over Treasury market sell-off

In [yesterday's Q&A with the WSJ](#), Fed Chair Powell was asked several times whether he felt last week's Treasury sell-off was disorderly or whether US real rates had risen too quickly. Powell refused to describe the moves as disorderly and there was absolutely no sense that the Fed was any closer to taking action – be it verbal or operational – to address the rise in yields.

As our bond colleagues point out, next week sees some large 10 year and 30-year US Treasury auctions, exactly the tenors into which US overheating risks can be priced. It seems clear that upside risks to US yields will dominate into the Fed meeting of 17 March, leaving both risk assets

and short dollar positions vulnerable. Indeed, even the industrial metals complex is finally undergoing a sharp correction led by Copper and Nickel (the latter is bad news for the IDR).

But today, it's all about the NFP. Powell made it very clear that the US has a long way to go to meet its full employment goals – meaning in reality a strong jobs report should not bring pricing of the first Fed hike substantially nearer than the currently-priced 1Q23. Yet any stronger than expected numbers do risk exacerbating the bond sell-off and warns this dollar correction has further to run. DXY looks biased towards 92.50 over coming sessions.

⬇️ EUR: Vulnerable period for the EUR

The rise in US yields is prompting a shake-out in positioning. Those long FX positions to be shaken out first were in the defensive low yielders – first the JPY and more recently the CHF. While the EUR does enjoy greater benefits from the business cycle than either JPY or CHF, we would still say that positioning leaves the EUR vulnerable over coming weeks.

1.1950 looks a big EUR/USD support level – which would do well to survive this bumpy period. A close below there would warn of a 1.1700 scenario. We very much view this is a correction, but investors may choose to lighten positions ahead of a possible 2% drawdown.

⬆️ GBP: Not unduly affected by Brexit tension

Tension over the UK unilaterally softening trade restrictions in the Irish Sea haven't hit GBP so far.

A shakeout of EUR longs may see EUR/GBP trade 0.8550.

⬇️ PLN: Central bank to pour cold water on tightening expectations

Our team feel the market has got too excited over this week's Polish MPC statement and is too aggressive in pricing expectations of nearly a full 25bp hike this year.

We think the central bank is prepared to look through the forthcoming spike in CPI and would want to avoid a hike for the risk of strengthening the PLN. Remember in late 2020 the NBP was intervening in FX markets to weaken the zloty.

Market expectations of tightening may well be dashed today when Governor Glapinski holds a press conference. PLN is already under pressure on the external environment and could trade 4.60 if 2021 tightening is priced out.

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