

## FX Daily: China's cash squeeze gives USD some support

The dollar was back on the rise in overnight trading and largely driving the risk-off environment was some volatility in China's money market where a sharp increase in cash demand by lenders pushed the overnight repo rate to a 5-year high. We could see the greenback retain some momentum into the weekend on the back of safe-haven demand



### USD: Helped by safe-haven demand

The trading halt imposed on some highly volatile stocks yesterday by retail platform Robinhood has been a dominant story.

While this helped calm investor nerves yesterday, Asian equities dropped overnight, and Western stock index futures point at a negative open. Largely driving the risk-off environment was some volatility in China's money market where a sharp increase in cash demand by lenders (partly due to seasonal factors) pushed the overnight repo rate to 3.34%, a 5-year high.

The dollar was back on the rise in overnight trading after losing a big chunk of Wednesday's gains during yesterday's session. We could see the greenback retain some momentum into the weekend on the back of safe-haven demand: further developments in the Robinhood story will be

closely watched in this sense.

Still, the recent reiteration by the Fed of its ultra-dovish stance despite an improving outlook leaves the dollar vulnerable in the medium-term as risk sentiment stabilises. Some US data releases today: December personal spending, PCE, MNI Chicago PMI and housing data) should have a limited market impact.

## ➔ EUR: Not-too-bad GDP numbers helping resilience

France's GDP slump in 4Q turned out to be less severe (-1.3% QoQ) than forecasts.

This leaves us more confident around our economists' call for a positive read (0.2% vs consensus 0.0%) in the QoQ figures for Germany, which experienced looser containment measures in the same period than did France. Indications of a more contained 4Q activity slump in the Eurozone may help the EUR weather the current positive dollar momentum better than other G10 currencies. EU moves to tighten the export of vaccines may also play as a EUR-positive.

Meanwhile, expect more headlines on Italian politics as the scenario of a technocratic/national unity government appears slightly more likely following the latest developments. The effective implications should be limited for markets and the EUR, especially as most parties have reiterated that they do not intend to go to early elections.

## ⬇ GBP: Still resisting USD appreciation

Sterling is closing the week (and the month of January) being the only G10 currency outperforming the USD.

We expect the vaccination advantage of the UK to keep driving EUR/GBP lower in the rest of 2021.

## ⬇ CAD: GDP data to have low impact

Canada will release its November GDP figures, which we expect to come in at 0.2% month-month, slightly below consensus (0.4%).

The impact on CAD should be contained considering the outlook has sharply changed after vaccine-related news.

CAD may stay under some pressure today in an unsupportive risk environment.

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