

FX Daily: Data vs doves

Some good data in the US may cast further doubt on the ability of the Fed to stick to its ultra-dovish stance and give some support to the dollar, especially against the low-yielders. EUR/USD may move below 1.2000, but evidence of vaccination speeding up in the eurozone bodes well for a EUR rally in the longer run. In Brazil, a 75bp rate hike is widely expected



Source: Shutterstock

USD: Good data may offer some short-term support

The dollar enjoyed a small corrective rally yesterday, amid a generalised risk-off sentiment in global markets that was exacerbated by Treasury Secretary Janet Yellen suggesting that interest rate increases may have to rise to prevent overheating in the economy. Yellen clarified that she was not endorsing or suggesting monetary tightening, and indeed rate expectations hardly moved – not a surprise considering the Fed reiterated its cautious rhetoric only last week – which is why the dollar's reaction was relatively contained and almost entirely due to a general flight to safety. A speech by the Fed's Charles Evans today may see some comments aimed at downplaying any tightening speculation. Data-wise, two releases will be closely monitored in the US today. First, ADP payroll numbers, which are expected to come in strong at 850k (our US economist is in line with consensus) and will have a big role in forming expectations ahead of the jobs report on Friday;

second, the ISM services index for April, where we expect a rise to 64.0. Two strong releases may cast further doubt on the ability of the Fed to hang on to its dovishness and could help the dollar stay supported today. Low-yielders may be the main underperformer if the dollar inches higher, while activity currencies may still benefit from the supported reflationary story and some evidence of vaccination rollout gathering more pace in key regions of the world. In the longer run, we remain dovish on the dollar, with another potential negative factor – a record US trade deficit at \$74.4 bn – confirmed in yesterday's data.

↓ EUR: 1.2000 may not hold, but vaccination news is welcome

The 1.2000 psychological support in EUR/USD should be heavily tested again today as the dollar could benefit from some good data while the data calendar in the eurozone is rather light. Final eurozone PMIs should be overlooked, and it might be too early to hear anything new from ECB Chief Economist Philip Lane only a couple of weeks after the ECB meeting. Should 1.2000 fail to hold, the next technical level to watch for EUR/USD will be the 200-day and 50-day moving average at 1.1950. Despite some potential downside pressure in the very short term on the pair, evidence that vaccinations are speeding up in the euro area bodes well for a sustained uptrend in the euro in the longer run.

→ GBP: Calm before the BoE meeting

A wait-and-see approach may dominate price action in sterling today as we head towards the Bank of England meeting tomorrow and no key data is released in the UK today. Here's our economics and rates teams' take on the [prospect of BoE tapering and the potential market implications](#).

↑ BRL: BACEN set to hike another 75bp today

BACEN meets to set interest rates today and is widely expected to deliver another 75bp of tightening. This would take the Selic policy rate to 3.50%. The subsequent real interest rate would still be low by emerging market standards given that inflation is currently running at 6.10% year-on-year and may push up to the 7.5% area by mid-year. That is why the market will need to hear a continued hawkish message from BACEN today, meaning that it is probably too early for the central bank to be talking about slowing the pace of rate hikes to 50bp increments. Assuming the hawkish message can be maintained, Brazil's *real* can continue to plough its own bullish furrow, buoyed by strong terms of trade gains and a 2021 budget welcomed by the markets. Stability in Covid-19 cases is also helping improve sentiment. Closes below 5.35/USD would be a good signal for the BRL.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

(being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.