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

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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.

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