

## FX Daily: Dovish Fed doesn't float all boats

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Source: iStock

### 📌 USD: Fed sticks market tightening expectations back in their box

Federal Reserve Chair Jerome Powell did [another good job last night of calming market expectations over a withdrawal of stimulus](#). Notably, we saw some further yield curve steepening in the 5-30-year US curve, with Fed-sensitive 5-year yields (where tightening expectations have recently been expressed) falling back.

The Fed does seem to be getting its point across that it will be adjusting policy on actual data, not forecast data, which conveniently buys it some time – probably until the June meeting. This dovish Fed policy-setting has been a boon to currencies exposed to the global recovery cycle and most

emerging market FX. Encouragingly for holders of EMFX, Brazil's central bank front-loaded the start of its tightening cycle last night with a 75 basis point hike and promised another 75bp hike at its next meeting. Let's see whether Turkey hikes rates by 100-150bp today and Russia tomorrow (could see first 25bp hike) also deliver.

Yet a Fed-inspired soft dollar backdrop continues to be challenged by how quickly economic blocs break-out of lockdowns. The US seems well on the path to recovery with a successful vaccine programme and a lot of money. Sadly, Europe is lagging once again, with political in-fighting over the vaccine roll-out and a rising third wave of infections. In this environment, we would prefer to back the commodity bloc against the dollar (CAD, NOK & AUD should continue to do well), although low yielders in Europe will lag.

Favour DXY staying slightly offered.

## EUR: Waiting on the EMA

The EMA holds an extraordinary meeting today to discuss the safety of the AZ vaccine. Full clearance of AZ would be welcomed by the EUR and could drag EUR/\$ back to the 1.2040 area. Yet until Europe gets some real momentum on the vaccine roll-out, the EUR will lag in this cyclical FX rebound against USD.

## GBP: BOE may temper rate hike expectations

The [Bank of England announces its rate decision](#) at 13 CET today.

A push-back against the 50bp of hikes priced over 3 years could soften GBP a little, but given the vaccine travails on the continent, EUR/GBP should stay within its new 0.8540-0.8640 range.

[Please see our full Bank of England meeting preview here](#)

## NOK: Norges Bank to send EUR/NOK through 10.00 today

Norges Bank announces its policy decision today and will also release its first Monetary Policy Report of the year. The focus will be on whether it upgrades its expected path for the policy rate, which currently expects take-off in the first half of 2022. The balance of risks we think favours a steeper path for the policy rate, given rising CPI, higher oil prices and progress on vaccination. With last night's Fed having boosted the external environment we think EUR/NOK has a good chance of breaking under 10.00 today.

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