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FX

## FX Daily: EUR/USD: Too early to jump on the bull wagon?

Bond bears may be left disappointed by more cautious rhetoric from the Fed minutes, but any hawkish signal surely bears the risk of hitting Treasuries and providing some support to the dollar. The USD has been showing signs of weakness this week, especially versus the low-yielders, but it seems too early to say this the start of a broader USD downtrend



### ➔ USD: Fed minutes either neutral or dollar-positive

Global risk sentiment has been mixed after the Easter break, with signs of recovery in European sentiment leading to record highs in the Stoxx Europe 600 while US equities stalled yesterday after a strong session on Monday.

Expect very few data-related catalysts for the remainder of the week, while focus today should shift to the Fed, with a number of scheduled speakers (Evans, Kaplan, Barkin, Daly) and the release of the FOMC minutes for the 17 March meeting. Investors will be scanning the minutes in search of any “discomfort” among policymakers about rising inflation prospects. In parallel, any hint that the discussion is migrating towards defining a timeline for tapering asset purchases.

Bond bears may be left disappointed by more ultra-cautious rhetoric from the FOMC (which should leave markets unfussed), but any (even mild) hawkish signal surely bears the risk of hitting Treasuries and providing some support to the dollar. The greenback has been showing signs of weakness this week, especially versus the low-yielders, but it seems too early to conclude this is the start of a broader USD downtrend just yet.

### ➔ **EUR: Shifting direction? Not that fast**

The euro has been following G10 low-yielders in a comeback against USD this week. The narrative of strongly diverging patterns on the virus and vaccination themes between the US and the EU has been absorbed to a certain extent by asset prices, and investors have been welcoming some timid signs of recovery in European recovery prospects.

The EU Commission reportedly indicated that the immunity target in the region should be reached by the end of June. However, this appears to be conditional on a rise in confidence in the AstraZeneca vaccine. This may not be a given, also considering that some media reports suggested that the EMA might acknowledge a link between the AZ vaccine and blood clot cases.

From a technical perspective, the EUR has already suffered a widespread position-squaring correction (CFTC reported another material drop in EUR speculative longs in the week ending 30 March) and is now displaying a more balanced positioning. That said, a continuation of the euro's good momentum is likely to need to rely on a tangible improvement in the EU's virus/vaccine situation, which may still take some time to materialise.

### ➔ **GBP: Correction may have short legs**

Sterling corrected lower yesterday, possibly amid some profit-taking following a solid first quarter. But fundamentals – above all, upbeat recovery expectations thanks to the vaccine-backed reopening of the UK economy – remain strong and should limit the scope for further short-term GBP downside.

### ⬇️ **CAD: Third-wave headaches**

A rebound in crude prices on lower perceived chances of a US-Iran deal were not enough to help CAD rebound as surging Covid-19 cases across Canada are forcing fresh restrictions in most provinces. Canada has also administered only half of the US vaccine doses (per-capita).

With a strong economic rebound being the base of recent CAD strength, the impact of the third wave may prompt some short-term underperformance relative to other pro-cyclicals.

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