

## FX Daily: Euro getting undervalued on a short-term basis

The EUR/USD is now around 2% undervalued, based on our short-term financial fair value model. This model also suggests that dips into undervalued territory have been rare and short-lived



### ➔ USD: A pause for the breath

The FX market stabilised overnight after yet another day of meaningful USD gains yesterday. Stability is likely to remain the theme of the day ahead of the UST auctions and the US inflation release tomorrow, which are the near-term risks for FX markets (given the possible negative spillover into USTs and the risk of a further sell off). Near-term, the currencies of oil exporters should be favoured over low yielders in the F10 FX space, with the rising oil price providing an offsetting factor to the challenging global risk environment (EUR/NOK price action being the case in point, with the pair breaking below 10.1000 yesterday).

### ➔ EUR: Getting undervalued

Another sharp dip in EUR/USD yesterday (likely exaggerated by long EUR/USD positioning) brought the pair into more meaningfully undervalued territory (around 2% based on our short-term financial fair value model). Our model also suggests that over the past quarters, the dips in EUR/USD into such undervalued territory (around 2%) have been rare and short-lived. The current

more pronounced undervaluation should help EUR/USD to defend the 200-day moving average support level of 1.1829 today.

## 📈 GBP: Sterling's appealing outlook more and more reflected in positioning

Sterling continues pushing higher vs the euro, with the clear divergence in the pace of vaccination and the central banks' outlooks benefiting GBP. As per [FX Talking](#), we target 0.8500 within one month but this may be reached earlier. The clear GBP tailwinds are being reflected in the [GBP speculative positioning](#), with GBP longs (as a percent of open interest) now close to the 24% highs seen in April 2018. Although rising sharply, we think this can extend further as the GBP outlook remains appealing. Still, there are currencies with larger speculative long positioning (New Zealand dollar and Swiss franc) than sterling.

## ➡ HUF: Higher CPI, but not yet an issue for the currency

In Hungary, our economists expect headline inflation to edge higher to 3% year-on-year, but the uncertainty is higher than usual considering the significant jump in fuel prices in February. Core CPI is set to retreat only incrementally, to 4.1% year-on-year. For now, CPI is not a concern but we expect pressure on the forint to build in 2Q as May and June CPIs should print around/above 4%, depress the already negative HUF real rate further and reinstate pressure on the currency. This may eventually force the National Bank of Hungary to deliver FX stabilising hikes (we expect hike/s in the 1-week depo rate in 2Q). But for today, the domestically-driven downside to HUF should be limited and the currency is set to follow the general risk sentiment, along with its CEE peers.

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