

FX Daily: Fear of Missing Out in 21

As the first major trading day of the new year kicks off, risk assets remain in favour. But we think caution is warranted ahead of tomorrow's re-run of the Georgia Senate election



United States Capitol building silhouette and US flags at sunrise

Source: Shutterstock

📉 USD: A cautious beginning to the New Year

Investors are returning from their year-end break to find that late 2020 trends have largely extended. These trends have rewarded overweight positions in equities (particularly tech) and commodities and underweight positions in bonds and cash (especially cash held in US dollars). Positioning is starting to look a little stretched, however, with cash positions now underweight for the first time since 2013 according to buy-side surveys. And whilst there may be much Fear of Missing Out (FOMO) as investors break from the gates on the first major trading day of the New Year, we think a little caution is warranted ahead of one of the first major event risks of 2021 – [tomorrow's re-run of the Georgia Senate election](#). Whilst most analysts predict that Republicans hold onto the two seats in question, investors may want to see that result confirmed before pushing inflationary trades (and dollar weakness) much further. Any surprise win for the Democrats here could raise concern of greater regulatory oversight for the US tech sector and prompt some position adjustment in US equities. For today then, expect DXY to stay soft in an 89.50-90.00 range, awaiting Georgia.

➔ EUR: Lockdowns have yet to take their toll

EUR/USD starts the year at its highs – unaffected by the broadening lockdowns across Europe as policymakers try to control the spread of the virus even as they race to roll out vaccines. Driving this EUR/USD strength, however, is broad dollar weakness and here we are especially impressed by the sharp drop in USD/CNY below 6.50 overnight. Inevitably some of these flows into Asia equities will be recycled into the EUR through FX intervention by Asian central banks – look out for December FX reserve figures from Korea and Taiwan this week. This should be a key trend for 2021, potentially taking EUR/USD through 1.25. For today, the focus in Europe will be manufacturing December PMIs which have been holding up better than expected. Expect EUR/USD to stay supported near 1.22.

⬆ GBP: Taking stock of the deal

Sterling is holding onto late December gains as investors take stock of the free trade deal – which largely matched low expectations. Being underweight UK equities since 2016 has largely paid off for investors and the broadening of UK lockdowns hardly makes a case for any re-rating right now. Yet we suspect the GBP recovery has a little further to run. EUR/GBP looks biased to 0.8800/8850.

⬆ TRY: Lira tops the carry table

The Turkish lira has been the best performing emerging market currency since Monday 20 December, very much helped by the 200bp rate hike in the policy rate to 17% on Christmas Eve. This policy rate is now comfortably above inflation (around 14%) and policy orthodoxy certainly helps here. USD/TRY is well on its way to our [7.20 1Q21 forecast](#).

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