

FX Daily: The Fed presides over the soft dollar outlook

The Federal Reserve continues to facilitate a weaker USD environment. Deeply negative front-end US real rates and economic recovery in Europe should benefit cyclical FX in coming weeks. Cyclical NOK and CAD are also getting a tailwind from the policy normalisation-prone central banks. German CPI data today to have a limited impact on EUR/USD



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USD: The Fed presides over the soft dollar outlook

USD remains under pressure across the board as the Fed continues to facilitate a weaker USD environment. As per the [FOMC review](#), although the Fed acknowledged the improving economic outlook (due to the successful vaccination programme and additional fiscal support), caution remains the name of the game and there was no hint at policy normalisation. With front-end US real rates already deeply negative and set to fall further as US CPI rises sharply this quarter, this is likely to be a USD negative, particularly when other parts of the world (namely Europe) are set to see an economic rebound in coming months. Under these circumstances, cyclical FX should benefit. It is no surprise that Norway's krone and Canada's dollar have been the best performing

G10 currencies over the past two days, as apart from their high betas, they also stand out with more policy normalisation-prone central banks. President Biden's speech in Congress yesterday further underscored his fiscal stimulus plans, adding additional support to cyclical FX (as long as we see a non-reactive Fed). Today, the focus turns to US 1Q GDP. It should be a strong number, led by stimulus-fuelled consumer spending.

⬆️ EUR: Benefiting from the weaker dollar

EUR/USD broke above the 1.2100 level overnight as the dovish Fed presides over broad-based USD weakness. This should keep EUR/USD on an upward trend in coming months further helped by the improving eurozone economic data. On the data front, we have preliminary German April CPI today, which is set to rise further, very close to the 2% level. However, as the European Central Bank will be looking through the upcoming CPI spikes (seen as temporary and driven by volatile factors) no reaction from the central bank is expected. Rather, the constructive EUR/USD story should be about the weaker USD dynamics and the re-rating of the eurozone growth outlook, and less about the ECB.

➡️ GBP: Political woes preventing GBP/USD from bigger upside

Although also benefiting from the softer USD environment and GBP/USD is very close to the 1.4000 level, political woes are limiting the GBP upside. Indeed, GBP/USD underperformed EUR/USD yesterday and we have tentatively seen a similar trend overnight. The Electoral Commission has now started an investigation into the funding of Prime Minister Boris Johnson's flat refurbishment. Coupled with the upcoming Scottish elections, all this points to limited near-term upside to GBP.

⬆️ SEK: 1Q GDP indicator unlikely to effect SEK too much

The Swedish 1Q GDP indicator should see a modest increase in quarter-on-quarter terms, but the effect on Sweden's krona should be limited. First, the 1Q reading is old news and all eyes are set on recovery this quarter and next. Second, the improvement in domestic data is unlikely to affect the Riksbank's stance too much, with the central bank set to stay on hold this year and next (see the [Riksbank Review](#)). This means fairly limited support to SEK coming from domestic drivers. Still, we look for EUR/SEK to break below the 10.00 level this summer, predominantly driven by the improving European activity data and more synchronised global recovery from summer onwards.

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