

FX Daily: Gentle dollar downtrend consolidating

Stock gains in Asia, more signals that the global virus situation is improving and further gains across commodities, are putting pressure on the dollar, which may stay on a gentle downtrend ahead of tomorrow's FOMC minutes. In Europe, EUR/USD continues to be offered support from reopening plans in the eurozone, while the NBH hawkishness is set to boost HUF



📉 USD: Lacking US-specific drivers

It's been a rather quiet start of the week in FX markets, with the dollar gently offered on the back of additional signs of an improving virus situation in most of the world and Western equity index futures pointing higher after a solid session in most of Asia today. Also, commodities have remained a central theme for markets, as oil, natural gas and iron ore (which fell sharply last week) have all pressed higher. In FX, supported crude is pairing with accelerating vaccinations in Canada to keep pressuring on USD/CAD, which may test the key 1.2000 support in the coming days. A driver of the pair is indeed policy divergence, and a week with plenty of Fed speakers started off with a reiteration of the "no time to talk tapering" rhetoric from Vice Chair Richard Clarida yesterday. Today, we'll hear comments from Dallas Fed's Robert Kaplan, who is normally

considered a hawk but is not a voter until 2023. On the data side, the US calendar only includes some housing data which should not move the market. External factors – global virus developments, commodity prices – may remain the main drivers of risk appetite and the USD ahead of the FOMC minutes tomorrow. We could see the dollar stay broadly offered today, with commodity currencies the main beneficiaries.

📈 EUR: Positive signs from Italy?

EUR/USD looks set to remain mostly a USD and global risk appetite story for now, although the underlying supportive narrative of improving virus dynamics in the eurozone has continued to be fuelled, as Italy announced plans to lift most domestic restrictions by 21 June. This could also help to limit the widening of the BTP-Bund spread which has recently moved into the 120-125bp region (the highest since January), and started to raise some concerns about the possible spillovers into the wider eurozone sentiment. Data-wise, the preliminary 1Q GDP report for the eurozone aggregate should confirm the 1.8% YoY contraction, but the impact on the market should be negligible.

📈 GBP: Likely to remain supported

Sterling is already benefiting from the low contagion/looser restriction combination in the UK, but data is also providing some support to UK-related sentiment today as the release of the March jobs report showed another decrease in unemployment. GBP appears to have enough tailwind to keep consolidating in the above-1.40 region.

📈 HUF: NBH providing a boost to the forint

The National Bank of Hungary delivered a profound shift in its bias yesterday and we now look for four 15bp hikes in the 1-week depo this year, with the first hike coming at the June NBH meeting. The proactive NBH points to near-term gains for the forint and outperformance. We expect EUR/HUF to test and break the 350 level this quarter. But forint gains won't be permanent and we expect EUR/HUF to end the year closer to 355-360 as a lot is already priced in. The current account should be in modest deficit and there is a big question mark as to whether the NBH is willing to tolerate an overly strong HUF. Nonetheless, the era of meaningful domestically driven HUF sell-offs (as seen last year and in 2019) seems to be over. This is good news for HUF. See our [new EUR/HUF forecast](#).

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