

## FX Daily: High bar for the dollar rally to have legs

The dollar rebound proved to be short-lived. With QE tapering widely expected in the second half of the year, and USD front-end real rates still deeply negative, the scope for a dollar rally to have legs is limited. Today, May PMIs are likely to help both EUR and GBP while USD/CAD is on the verge of testing the key 1.2000 support very soon



### ⬇️ USD: The short-lived dollar rebound seems to be over

The dollar rebound of the last few days seems to have fully eased.

While the FOMC minutes might have surprised with the tapering talk, the relatively limited reaction in the US Treasury market (where 10- year UST stayed below the 1.70% level) and also in the FX market (where the dollar rebound faded) suggests that (a) QE tapering later this year is the market's base case; (b) a move towards policy normalisation will be cautious.

Comments from the Dallas Fed's Kaplan yesterday afternoon about starting the tapering conversation "sooner rather than later" didn't give the recent dollar rebound legs. Equally, the cryptocurrency sell-off didn't cause much damage to the FX market, with DXY still below the psychological 90.00 level.

Overall, unless we see a meaningful shift towards more aggressive Fed tightening (here the talk of

QE tapering in H2 is unlikely to suffice as this is widely expected) and the subsequent reversal in the USD front-end rates dynamics (currently most negative in the G10 FX space), the USD rebound episodes are likely to be should be short-lived, as we have seen this week.

## 📈 EUR: Back on the gentle appreciation trend

The May Eurozone PMIs are expected to tick higher, reflecting the improving sentiment helped by the pick-up in the vaccination programme and the re-opening plans. With the recent dollar rebound fading, EUR/USD is set to test the 1.2250 level.

In the CEE FX space, EUR/PLN broke below the 4.50 level yesterday, receiving a boost from central bank meeting minutes, which showed that three members voted for an increase in reserve requirement rate. The shifting MPC bias from no longer ultra-dovish (though a rate hike this year is not our base, rather we look for QE tapering in H2) and the not so unfavourable court rulings on the CHF mortgages issue for commercial banks suggest a brighter outlook for PLN.

Tactically, we expect both PLN and HUF to outperform CZK in the coming weeks, with the koruna upside being limited due to one-way positioning.

## 📈 GBP: UK PMIs to underline the recovery

The UK May PMIs are set to rise today, with the rising consumer and business confidence aided by the vaccination programme and re-opening. With the recent dollar rebound softening, this points to higher GBP/USD (back above 1.4200) and EUR/GBP testing 0.8600 level

## 📈 CAD: Central bank hawkish expectations remain supported

The data flow has underpinned CAD's good momentum this week, with April inflation rising above expectations to 3.4% and ultimately supporting hawkish expectations on the central bank. Yesterday's comments by Governor Tiff Macklem did not denote any alarming tone on higher inflation, but also highlighted the concerns about surging house prices and referred to current rates as "unusually low".

Today, we'll see the release of March retail sales, which are widely expected to have risen at a slower pace compared to February but may not have significant market implications as the figures will be heavily impacted by Covid-19 restrictions. It seems the recent fast vaccine roll-out in the country is possibly making investors more tolerant of some not-so-good pieces of data.

USD/CAD may test the critical 1.2000 support very soon.