FX



# FX Daily: High bar to reverse the dollar bear trend

Markets stabilised overnight as investors focus on the prospects of a vaccine and the eventual global economic recovery



# 😍 USD: High bar to reverse the dollar bear trend

After yesterday's US stock market decline, markets stabilised overnight, with European futures only pointing to a modest dip and the dollar being broadly down overnight. While rising Covid cases remain the key near term risk, as has been the case in the latter part of 2020, the market continues to focus on the prospects of the vaccine and the eventual global economic recovery (even if the rebound may come a little later than initially expected – particularly in Europe). All the focus today turns to the run-off elections for the two Senate seats from Georgia. The polls are narrowly favouring a Democrat victory in both seats but, given the margin of polling error, the race is in effect still neck-and-neck. While a possible Democratic victory could raise concerns about more regulation, at least over the coming months this might be outweighed by expectations of larger fiscal stimulus (which would precede possible tax hikes and regulatory measures) and

thus keep risk assets supported and the dollar weak over the coming months.

## EUR: A pause for now, but more gains ahead

Soft dollar dynamics remain the prime EUR/USD driver. With the run-off US Senate elections in Georgia ahead and the uncertainty about the outcome, the cross should remain rangebound today. Still, more upside in EUR/USD lies ahead as the Federal Reserve sticks to its average inflation targeting framework, US real rates remain negative and the current account deficit bites.

## GBP: The effect of the lockdown announcement to be a oneoff

GBP was the worst performing G10 currency yesterday following the announcement of new lockdown measures. We expect the effect on GBP to be isolated and limited, with sterling already returning to normal trading overnight. This means EUR/GBP should return back below 0.9000 and GBP/USD should be pushing higher in line with the rising EUR/USD.

### 😳 CEE FX: Started the year on an upbeat note

Despite the extension of the lockdown measures in Europe, Central and Eastern Europe currencies started the year on an upbeat note, helped by the benign risk environment and rising EUR/USD. Even Poland's zloty rebounded after the year-end central bank FX interventions and Governor Adam Glapinski's hint at possible rate cuts, suggesting that the Bank will need to remain persistently in the market (if it wishes to prevent the zloty's appreciation below the EUR/PLN 4.50 level) given the mix of a supportive external environment and solid current account surplus. We see all CEE currencies rising vs the USD this year, with the Czech koruna materially outperforming the zloty, Hungary's forint and Romania's leu.

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