

## FX Daily: Higher UST yields but lower dollar

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### ⬇️ USD: Higher UST yields but lower dollar

Despite the meaningful spike in US Treasury yields, cyclical currencies remain fairly stable and recorded gains vs USD.

As long as the rise in UST yields and the curve steepening is driven by "good" economic factors and the perception that the Federal Reserve remains behind the curve (tolerating the CPI overshoot), the rise in yields is not detrimental for risk assets and doesn't benefit USD.

It is predominantly the rise in yields caused by quantitative easing tapering expectations that would be [more detrimental for cyclical assets and FX](#). The inflation/ growth driven rise in UST yields should keep USD on the back foot vs cyclical FX both in emerging markets and the G10 FX space in coming weeks, with high yielders doing better than the low beta, low yielding segment.

It doesn't surprise us that JPY and CHF have been the laggards in the G10 FX space while low yielding CEE FX was the underperformer in the emerging market space in general.

[Timing the tantrum: The market implications of a big Treasury sell-off](#)

## ⬆️ EUR: Higher UST yields not inconsistent with higher EUR/USD

As the rise in UST yields is driven by economic (and not monetary) factors, the euro, a currency of a large open economy, benefits vs USD.

We expect, EUR/USD to grind towards 1.22 in coming days.

And with the confidence in global recovery/reflation dynamics growing, the unwinding of precautionary capital out of CHF is and should continue weighing on CHF. [EUR/CHF broke above 1.10](#) and we look for further move to 1.15 this year.

[EUR/CHF: A big vote of confidence in the recovery](#)

## ⬆️ GBP: Still standing out

GBP continues to stand out in the G10 FX space, with the vaccine dividend making it the outperformer among major currencies. Speculation about the extension of the Covid-19 support/fiscal measures are also GBP positive.

EUR/GBP to move back below 0.8600.

## ⬇️ CZK: Under pressure

EUR/CZK pushed above the 26.00 level as the deteriorating Covid-19 situation and expectations of further strict lockdown measures weighed on the currency.

While CZK is vulnerable mainly via the positioning channel (we perceive CZK as the currency with the biggest longs in the region) we don't expect the scale of the sell-off to be similar to those seen in March or September.

First, the lockdown measures should not affect industrial production drastically (this will remain open). Second, the case for a 2Q economic rebound is still in place, which should eventually benefit the currency. Third, unlike the first wave of the pandemic, the central bank is unlikely to cut rates further and the case for rate hikes in late 2021 remains intact.

Therefore, from here onwards, any further korona weakness should not be long lasting, and we're still targeting EUR/CZK 25.50 later in the year.