

FX Daily: More choppy trading

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USD: Too early to declare that the bear trend has resumed

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Yes, the market has dialled back some of the pressure on the Federal Reserve to tighten early (US 5-year yields softening and April 23 Fed Funds futures rallying 10 ticks), but that pressure looks set to return. One only has to look at China's March producer price index of 4.4% YoY to see the wave of forthcoming inflation in 2Q and an uncomfortable quarter for Fed communications. Here our bond strategy team are convinced we have not seen the top in US 10-year yields.

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Events have not helped the environment in emerging markets, where Brazil, in particular, is battling with Covid-19, Turkey's monetary policy is under scrutiny and tensions in eastern Ukraine, and the prospect of fresh sanctions hangs over Russia. Indeed, portfolio flows into emerging markets have stalled since late February. Continued patience may therefore be required for the global story that will attract funds out of the USD. DXY can easily correct back to 92.50/70.

Elsewhere today, Canada's March jobs figures may come in on the strong side in line with last week's US non-farm payrolls. However, any help to CAD should be short-lived as the recent rise in Covid-19 cases in Canada and the relatively slow vaccination roll out may leave CAD underperforming the rest of G10 pro-cyclical currencies.

➔ EUR: Pressure building to get the Recovery Fund moving

ECB's Isabel Schnabel has today said that a delay in the EU's Recovery fund would be a 'catastrophe'. Certainly, it seems like we need to see progress here, plus a step-change in the EU vaccination roll-out (neither look imminent).

EUR/USD could easily hand back recent gains in a move to the 1.1815/35 area, where it would be good to see a base - if it is indeed ready to go above 1.20 again.

➔ GBP: EUR/GBP short squeeze may have run its course?

EUR/GBP looks to have suffered a classic short squeeze this week, which may have run its course ahead of 0.8700.

We continue to favour 0.85 later in the second quarter.

➔ HUF: Building inflationary pressures

In Hungary, fuel prices will push the March headline CPI to 3.7% YoY, yet more is still to come in April and May, with headline CPI expected to reach levels around 5% in these two months. This should eventually be HUF negative as it will lead to a profound decline in the HUF real rate into deeply negative territory. We expect the pressure on HUF to be eventually met with NBH FX stabilising rate hikes.

Hence, we don't expect the current HUF rebound to be long lasting and see EUR/HUF moving back above 360 this quarter and even testing the 370 level in Q2. The upside to HUF should be therefore limited today despite the benign environment for CEE FX.

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