

FX Daily: New multi-year highs for the pound

GBP/USD broke above the 1.3800 level – the highest reading since April 2018. We expect it to move to 1.50 as the year progresses



📉 USD: US CPI to still stay below 2%, but it is the profile that matters

All eyes are on US January CPI and Federal Reserve Chairman Jerome Powell's speech today, given the focus on the reflation theme and the prospects of possible overheating of the US economy. On the former, CPI today should remain subdued at 1.6% year-on-year. However, it is the profile that matters, with a sharp acceleration expected in the second quarter and US CPI spiking to 3.8% in May. On the latter, while concerns are increasing whether the Fed is signalling a too loose policy set up given the inflation and growth outlooks (both helped by the prospects of a large US fiscal stimulus), it is likely that Chair Powell remains cautious today and does not deviate from the message of the last FOMC meeting.

The mix of clear upside price pressures, the risk of an overshoot and CPI staying higher for longer,

along with a cautious Fed sticking to its Average Inflation Targeting framework to make up for past inflation undershoots, should lead to a lower USD as US real rates remain deeply negative.

➔ EUR: Signs of tentative recovery

EUR/USD embarked on a tentative recovery and with Powell unlikely to signal any change in the Fed's guidance today, EUR/USD should stay above the 1.2100 level. Norway's krone received a boost this morning from higher than expected January CPI (underlying CPI measure at 2.7% YoY). Coupled with the outlook for the post-winter economic recovery in 2Q, the case for the Norges Bank to be the first mover in the G10 FX central banking space and hike rates first remains intact. We expect EUR/NOK to slip below the 10.00 level this year.

⬆ GBP: New multi-year highs

GBP/USD broke above the 1.3800 level – the highest reading since April 2018. While the bullish repricing of the GBP specific outlook has been the main supporting factor of the cross over the last two to three weeks, right now GBP/USD is benefiting from the EUR/USD recovery. Looking ahead, we expect both factors to work in favour of GBP/USD, with the cross moving towards the 1.50 level throughout the year.

➔ SEK: Riksbank unlikely to rock the SEK boat

The Riksbank meeting today should have a limited impact on Sweden's krona. With central banks globally becoming more concerned about overly strong domestic currencies, and leaning against this trend, we think it is unlikely that the Riksbank will deliver a hawkish surprise, as SEK strength would not be welcome. Hence, although the economy did better than expected and CPI is likely to continue rising near term, this is unlikely to alter the Riksbank's cautious stance. We expect SEK to continue trading around the EUR/SEK 10.10 gravity line and the absence of a hawkish bias suggests the EUR/SEK 10.00 level should not be tested either today or this week.

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