

FX Daily: Pan fried dollar

The combination of rising inflation, stronger retail sales (as stimulus cheques start to come through) and \$54bn worth of 10y and 30y US Treasury auctions look likely to drive both US yields and the dollar higher this week



Source: Shutterstock

📈 USD: US data looks to heat up this week

On paper the week ahead should show further evidence of the US economy heating up – the key global narrative for 2Q. As we discuss in our [G10 FX Week Ahead](#), the combination of rising CPI ([PPI on Friday at a 10-year high](#)), stronger retail sales (as stimulus cheques start to come through) and \$54bn worth of 10y and 30y US Treasury auctions look likely to drive both US yields and the dollar higher. This looks quite a well-telegraphed story, however, and the challenge for FX markets will be to discover whether this is already priced into the dollar or can generate further gains as the US economy starts to sizzle. We do look for DXY gains during the early part of the week, but failure to advance through the 92.55/70 technical area this week will leave open the scenario that the corrective dollar rally was exhausted on the last day of March.

➡ EUR: Will investors give Europe the benefit of the doubt?

Again, on paper this should be a tough week for EUR/USD if US yields are set to rise again. While

USD/JPY and then USD/CHF do tend to have the highest correlations with US 10-year yields, as a low yielder, the euro should get hit if the US 10-year heads back to 1.75%. Yet EUR/USD actually held up quite well last week and a case could be made that investors are starting to position for the next recovery story – namely Europe managing to gear up its vaccination programme and potentially leaving lockdowns later this quarter. Much will need to fall into place for this to occur. Safety suggests bracing for a EUR/USD correction back to the 1.1815/40 area through the early part of the week and any move above 1.1925 would certainly be a surprise.

➔ GBP: Leaving lockdown

It's a big day for England as non-essential shops and hospitality reopen. Our baseline assumes that the corrective rally in EUR/GBP stalls before the 0.8700/8730 area. Again, this is quite a well-telegraphed story however and it's worth watching the newsflow on trade post Brexit – where the realities of the new friction on the border are now starting to emerge.

⬇ RUB: Downgraded forecasts

Dmitry Dolgin has released an [updated profile for USD/RUB](#), now expecting volatility in a 75-80 range, versus 70-75 recently. Driving that adjustment has been a weaker current account position than expected, good demand for FX from Russian residents and geopolitical tension. On this latter point, the market awaits fresh news on sanctions from the US Treasury. Here, announcements are expected before a 4 June deadline, with a focus on whether the US Treasury goes as far as targeting new OFZ issuance.

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