

## FX Daily: A patient RBA remains a secondary driver for AUD

The USD failed to hold on to last week's gains, but with markets aggressively speculating on the size and pace of Fed tightening, the dollar may start stabilising today. Overnight, the RBA ended QE but sounded patient on rate increases: the muted impact on AUD/USD is another indication that rate differentials are a secondary driver for the pair



### ➔ USD: Room for stabilisation after position-squaring event

Despite increasing speculation around five Fed hikes in 2022 (and also about a 50bp move in March), the dollar did not manage to hold on to last week's gains, with a rebound in global equities offering a chance for profit-taking after an extended USD rally. In fact, we struggle to see this as more than just a position-squaring event, as the ambiguity about the pace and size of the tightening cycle after last week's FOMC is offering very few obstacles to (USD positive) hawkish speculation on Fed policy.

We think the dollar may already start stabilising today, even if another good day for risk assets may keep pro-cyclical currencies supported - which incidentally took the biggest hit last week.

In the US calendar, the highlights of the day are the ISM manufacturing numbers for January (likely to have declined) and JOLTS jobs opening for December. The FX impact should be contained, and barring a major slump in the ISM figures, the notion that the Omicron impact on US activity has been fairly contained should remain intact. DXY could consolidate in the middle of the 96.00/97.00 range, although risks remain tilted to the upside.

## ➔ EUR: 1.1200 could be a floor into the ECB meeting

The EUR seemed to have some idiosyncratic support being paired with the generalised dollar weakness yesterday, as evidence that prices in the eurozone are stickier than expected fuelled speculation on a 2022 start to the ECB tightening cycle. Higher yields in the region (German 10-year Bund yields turned positive for the first time since April 2019) may continue to offer a floor to the euro heading into the ECB meeting on Thursday. That, however, also raises the bar for a hawkish surprise (and the downside risks for the euro) ahead of the announcement; we continue to see a high probability that President Lagarde will stir well away from signalling a rate hike in 2022.

Employment data in the eurozone today should not have the same impact as yesterday's CPI figures, whose spill-over into EZ bond yields could mean that EUR/USD may enjoy a solid floor around 1.1200 before Thursday, even if the dollar starts recovering.

## ➔ GBP: Political storm remains a non-factor

The political storm around PM Boris Johnson has continued to intensify as the report on “party-gate” was released yesterday and British police are investigating a number of gatherings that took place during the lockdown period.

We doubt this is behind yesterday's EUR/GBP strength, which was likely due to the euro's strength following high CPI numbers in Germany. After all, political risk has been (and should continue to be) a non-factor for the currency market. The rebound in EUR/GBP should have short legs, as the prospect of BoE hiking on Thursday should keep the appetite for the pound quite elevated. We keep targeting a move below 0.8300 in the near term.

## ⬆ AUD: Patient or not, the RBA is not a key FX driver

The Reserve Bank of Australia's decision overnight fell short of the market's hawkish expectations. While policymakers decided to end asset purchases on the back of strong employment and inflation data, such a decision explicitly “does not imply a near-term increase in interest rates”. This was due to some reluctance to acknowledge inflation has now sustainably moved within the Bank's target band, with a lot of focus still on wage growth, which has failed to follow inflation higher for now.

We had signalled how the very short positioning on the AUD and the contained sensitivity of AUD/USD to rate differentials meant that the downside risks for the pair were quite contained today even if we expected the RBA to sound more dovish than expected. Indeed, AUD reactions were negative but very muted and were quickly reversed, even if markets scaled back tightening expectations: the first 15bp hike is now expected only in June.

We think that today's post-RBA price action clearly indicates that rate differentials have remained a secondary driver for AUD/USD, unable to drive a significant divergence from the general USD/risk

environment at the moment. Periods of USD long trimming (such as what we saw yesterday) should still see AUD emerge as an outperformer due to its [still extensive net-short positioning](#), but we think the very USD-supportive Fed stance on tightening will prevent a significant rebalancing in USD positioning for most of 2022. A recovery in risk sentiment can help AUD regain some more ground, but we think that any recovery in AUD/USD should stall around the 0.71/0.72 area.

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