

FX Daily: Rising US Treasury yields and diverging US dollar performance

Low yielding currencies have stayed relatively supported vs the US dollar as the bond sell off continues, resembling the first phase of the 2013 taper tantrum



➔ USD: Rising UST yields and diverging USD performance

The recent FX price action has resembled the first phase of the 2013 taper tantrum when low yielding currencies stayed relatively supported vs USD (EUR/USD being the case in point), while it was the emerging market FX high yielding segment where the decline was concentrated. While equity markets have been down recently, this has been so far relatively modest, with the rise in commodity prices underscoring the economic growth-led nature behind the rising bond yields rather than any imminent market concerns about the Fed taking the punch bowl away. On the latter, we expect Fed Chair Jay Powell to strike a balanced message today between expressing confidence on the recovery while keeping tapering speculation muted. This should keep USD upside in check and support cyclical FX today. Only when the spike in US yields becomes more disorderly and spills forcefully into risk assets, would USD experience across-the-board strength. In [Timing the Tantrum](#), we look at the most vulnerable currencies to a more meaningful rise in UST yields (South African rand among the high yielding EM FX, Czech koruna and Korean won among

EM FX low yielders), but we note that compared to the 2013 taper tantrum, the fundamentals among EM FX have improved considerably, mainly within the high yielding segment which shows: (a) less stretched valuations; and (b) better current accounts. This should reduce the scale of the downside to EM FX should we see a further spike in UST yields.

⬆️ EUR: ECB concerned about rising bond yields

While the European Central Bank is starting to be concerned about rising bond yields, a policy response does not seem imminent and it is the general USD environment that matters more for EUR/USD at this point. A cautious message from Powell today should push EUR/USD above the 1.2200 level.

⬆️ GBP: The road to recovery intact

Prime Minister Boris Johnson unveiled the reopening roadmap yesterday with 21 June being the target for easing all Covid-19 related restrictions. The vaccine dividend theme for GBP remains intact and with low yielders supported vs USD, GBP/USD should continue pushing higher.

⬇️ HUF: No change from NBH today but downside to HUF in coming months

We expect no change from the National Bank of Hungary today, with a cautious bias in place due to the challenging CPI profile. Irrespective of the external environment, we see the upside to the forint as limited and target of EUR/HUF 363 in 2Q21 (with upside risks to the cross). The projected sharp CPI acceleration above 4% in April and May and the likely wait-and-see approach from the NBH suggest a lower HUF as a strong growth/high inflation environment (nominal GDP likely to be around 9% this year) won't bode well for HUF when the 1-week depo is at 0.75%.

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