# FX Daily: Risk assets breathe again

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## USD: Risk assets breathe again

The bond market and risk assets are showing signs of stabilisation after the big sell-off last week. With 10y US Treasury yields now back to 1.40% and Asian equities rebounding overnight, the dollar's corrective rally should pause for breath. This is already evident in the price action overnight, with G10 and emerging market FX broadly up vs the US dollar and higher beta currencies leading the gains. As a disorderly UST sell-off remains the key risk for markets, the focus will be on the series of Federal Reserve speakers this week (including Chair Jay Powell on Thursday) and whether they express some concern about the UST decline (see FX Week Ahead). While the fall in cyclical FX was material late last week, we note that in the context of the sharp rise in UST yields during February, the overall negative impact on cyclical FX was not overtly pronounced. This is partly due to the reasons behind the sell off, which was tied more to improving economic prospects rather than expectations of monetary policy normalisation (ie Fed QE tapering).

## EUR: PEPP purchases announcement to have a limited impact on EUR

With European Central Bank officials expressing their unease with rising bond yields and the impact on financial conditions, the main focus of the day is on the announced purchases under the Pandemic Emergency Purchase Programme. An insufficient increase in purchases, and possible rise in BTP yields and BTP-Bund spread widening, should not be overly EUR negative as the currency has been fairly immune to rising BTP yields in recent quarters. Also note that previous increases in Italian yields were caused by specific Italian risk factors (fiscal concerns). Right now, it is the external environment driving yields higher, which means lower scope for a negative spillover into EUR. . If the ECB surprises positively (delivers a large increase in purchases) and Italian bond yields fall, this shouldn't be negative for EUR either. For the currency to suffer from a perceived dovish ECB shift, we need more than one week of increased purchases (such as an increase the size of the PEPP envelope) to send a clear signal. Clearly this will not be the case today. We expect a limited impact on the euro. EUR/USD to move above 1.2100.

## GBP: More gains ahead after the bull market correction

The GBP fall late last week was exaggerated by the latest rise in GBP speculative longs. With the market stabilising overnight, GBP/USD is set to move back 1.4000 today. The focus of the week is on the new UK budget (Wednesday), with additional fiscal support underscoring the constructive outlook for GBP in 2Q.

## NOK: The biggest beneficiary from the stabilising risk sentiment

Norway's krone is leading the gains among G10 FX. Stabilising UST yields, higher equity markets and supported oil prices suggest further scope for a rebound in low liquid, high beta krone. EUR/NOK to head back towards the 10.30 level.

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