

FX Daily: Risk assets struggle to refloat

Despite encouraging news on the Suez canal blockage, risk assets still face headwinds from Europe and there are no signs yet that the corrective dollar rally has run its course



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📉 USD: Cautious start to the week

A new week starts with focus on the leverage offered to Archegos Capital Management, with [media reports](#) suggesting the hedge fund has faced margin calls and been forced to reduce its portfolio of technology stocks. Having been blamed for weighing on technology stocks on Friday, fears of a ripple effect through market positioning did not materialise in Asia – but it is a story that should be followed. And despite encouraging news from the Suez, it seems that risk assets largely face headwinds from Europe, where case numbers in northern Europe (especially France) continue to advance and German Chancellor Angela Merkel may now seek legal authority to over-ride the lethargy seen by Germany's regional leaders in imposing lockdowns. As we discuss in our [G10 FX Week Ahead](#), there seem no sign as yet that this corrective dollar rally has run its course. Some strong March labour market data (ADP Wednesday, nonfarm payrolls Friday), plus the launch of President Biden's infrastructure package can keep the dollar supported. 93.20 is our forecast high on DXY this week.

⬇ EUR: Muddling through

The EUR/USD bounce failed to make much progress on Friday, probably leaving it vulnerable to 1.1700 this week. Quarter-end re-balancing flows will probably come into focus over coming days and here we may witness some net EUR selling given that eurozone equity and debt markets have outperformed those of the US in the first quarter and therefore may need to be rebalanced lower.

➡ GBP: EUR/GBP continues to press 0.8540 support

Trends in the virus look very different either side of the English channel and whilst that remains the case, EUR/GBP should stay pressured. Despite fears of virus resurgence in the UK, currently the government's reopening plans are on track and instead the focus is trying to tighten border restrictions. We do note, however, that e.g. the pace of French Covid-19 vaccinations seem to be moving in the right direction, but until case numbers in northern Europe reverse – and an easing, not tightening, of restrictions can be considered – EUR/GBP looks biased to the 0.8470/8500 area.

⬆ CAD: Looking for opportunities

We like recovery trades against the dollar in 2021. European FX – certainly at the moment – does not look the vehicle to express that view. Better placed may well be the north American currencies of Canada's dollar and the Mexican peso. These economies stand to benefit from the US consumer boom (e.g. remittances back into Mexico should be supported) and the Bank of Canada may be one of the first G10 central banks to taper asset purchases. We would therefore be looking for this USD/CAD bounce to be stalling in the 1.2650/2750 area before the pair breaks back under 1.25.

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