FX Daily: Shifting risks for EMEA

EMEA FX is now being driven more by specific regional factors than global trends. The third wave of coronavirus across Europe is of concern for central and eastern European FX while possible sanctions risk and monetary policy are issues for the Russian rouble and Turkish lira, respectively

Source: Shutterstock

USD: The infrastructure plan

The focus today turns to President Biden's announcement of the infrastructure plan. With US Treasuries meaningfully under pressure yesterday, the environment is clearly supportive for the US dollar, particularly as Europe continues to battle with a third Covid wave. Still, Europe should see an economic rebound in late 2Q as the vaccination process gathers pace and US Treasury moves should become less erratic (vs the scale of the move in February, particularly when the infrastructure spending is expected to be accompanied by $1.8tn worth of tax hikes – as per media reports yesterday). As such, USD upside in 2Q should be more limited and European FX should eventually see some reversal. In Canada, we have January GDP today. It should have a limited impact on the Canadian dollar, with the bigger focus being on the OPEC meeting tomorrow – with the possible extension of production cuts giving a helping hand to CAD.

EUR: Higher eurozone CPI does not mean earlier ECB tightening

March eurozone CPI inflation is set to rise to 1.2% year-on-year, with the main driver being food and energy prices. While the trend is set to continue in coming months and peak in the third quarter, a positive impact on the euro is unlikely as higher prices do not mean earlier ECB tightening. The ECB will look through the coming rise in prices and, if anything, the bias remains on the dovish side (as evident in the announced front-loaded asset purchases). Following the recent EUR/USD fall, the pair is now getting more notably undervalued on a short-term basis, by c.2% based on our short-term financial fair value model.

GBP: Positioned well against EUR

EUR/GBP continues pushing lower, being close to our one-month target of 0.8500. With the euro exhibiting limited potential for near-term good news, the 0.8500 level is likely to be broken in coming days /weeks.

EMEA FX: Favouring CZK among low yielders and RUB among high yielders

In our Directional Economics EMEA published yesterday, we note that the risk factors for EMEA FX have moved away from global to regional specifics. The third wave of coronavirus across Europe is of concern for central and eastern European FX while possible sanctions risk and monetary policy are concerns for the rouble and Turkish lira, respectively. For CEE FX, a fair share of bad news already seems priced in, mainly for the Czech koruna and Polish zloty which trade with a non-negligible risk premium. CZK is our top pick among CEE low yielders while we expect Hungary's forint to come under pressure in 2Q (which should eventually be met by National Bank of Hungary hikes in the 1-week deposit rate). Our preferences are as follows: We are overweight CZK, neutral on PLN and RON, and underweight HUF. Among high yielders, we favour the rouble over Turkey's lira due to the Central Bank of Russia's tightening and what we still see as low a probability of sectoral sanctions.

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