

FX Daily: Swingometer remains tilted to growth

Commodities prices are strong, equities are performing well and the yield curve continues to steepen on expectations of stronger economic growth. For the dollar, this likely means further weakness ahead



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📌 USD: Wednesday will be key for the dollar this week

Looking across global asset markets it seems confidence is growing in the global recovery. Commodity prices continue their strong advance and [Brent is trading close to \\$64/bl.](#) Equities are also performing well, where some Asian equity indices are already up over 10% year-to-date and outpacing the Nasdaq. And yield curve steepening continues as investors rebuild an inflation premium into the long end of the market, while the short end remains anchored. 4Q GDP from several parts of Asia overnight also supported the view that the 2020 contraction was not as deep as feared. The story then seems to be moving on to the issue of how good do things have to get before central banks remove the punchbowl of cheap liquidity? This topic will be in focus on Wednesday, when the US releases [January retail sales and we'll also get to see the January FOMC minutes](#). The dollar may stay supported against the low-yielders of JPY and EUR until Wednesday's event risk, yet our core stance is that the Fed is prepared to let the economy run hot

– that’s the whole point of Average Inflation Targeting – and that the dollar should stay broadly offered. Indeed, we’re looking for another broad leg of the dollar decline into 2Q as vaccine rollouts broaden around the globe. Today’s US public holiday makes for quieter trading conditions and suggests DXY stay offered in a 90.00-90.50 range.

➔ EUR: Resistance well defined at 1.2150 and 1.2200

EUR/USD found good support under 1.2100 late last week and the broadly positive commodity environment tends to favour further support this week. The good news is that Mario Draghi has been sworn in as Italian PM and has started appointing respected technocrats in key positions. EUR/USD may struggle to break first resistance at 1.2150 ahead of US data on Wednesday and, as we discuss in the [G10 FX Week Ahead](#), may face some challenges from the release of the ECB minutes on Thursday. Yet surely it is only a matter of time (?) before the European vaccine rollout starts to catch-up with those in the UK and the US, which should be broadly EUR supportive.

⬆ GBP: Focus on reopening the economy

Sterling continues to reap the dividends of a successful vaccine rollout and momentum is building towards a reopening of the economy – probably starting with schools on 8 March. This should be supportive of the post Brexit re-rating of UK asset markets (very observable in the UK Gilt market on Friday) and keeping GBP supported. Cable to 1.40.

⬆ CNH: Bull trend continues

Despite China being on holiday, investors still feel encouraged to drive the offshore CNH stronger. Expect much focus on where USD/CNY reopens Thursday.

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