

FX Daily: The temporary perfect storm for GBP

GBP underwent a material correction yesterday, on the back of concerns about the slowing pace of vaccination, blood clots issues related to AstraZeneca and its stretched speculative positioning. But we think the sharp move in GBP lower was exaggerated



Source: iStock

➔ USD: The accommodative Fed to eventually weigh on USD

The Fed minutes delivered no negative surprise for risk sentiment, with the committee reiterating no need to rush into tightening of monetary conditions and further support the recovery. We expect the very accommodative Fed to eventually weigh on USD as we move into the summer - rising inflation, yet no signs of imminent rate hikes will push front-end US real rates further into the deep negative, and coupled with the recovering global economy (which should be of a more synchronized nature in 2H21), should weigh on USD.

➔ EUR: Neutral EUR and optimism building into CEE FX

Limited data points suggest a range-bound EUR/USD today, with the pair hovering around the 200-day moving average of 1.1894.

CEE FX staged a meaningful rally yesterday, likely a function of rebounding EUR/USD as well as the forward-looking view on the Eurozone and CEE summer economic recoveries (as vaccination is expected to gain pace in the region this quarter).

In line with our preferences, CZK was the main outperformer. We look for further gains and target the EUR/CZK 25.50 level.

GBP: The perfect storm of vaccination concerns and one-way positioning

GBP underwent a material correction yesterday, on the back of concerns about the slowing pace of vaccination, blood clots issues related to AstraZeneca and its stretched speculative positioning. On the latter, GBP is currently the largest speculative long in the G10 FX space based on CFTC data, which clearly exaggerated the impact of the vaccination concerns.

On the vaccines, the UK regulator flagged that the balance of benefits and risks still favours the AstraZeneca vaccine (only below 30s will be offered alternative vaccines), and the UK government reiterated that its plan to offer the first dose to all adults by the end of July remains unchanged.

Therefore, we see yesterday's sharp move in GBP lower as exaggerated (EUR/GBP now screens almost 1% overvalued based on our short term finance fair value model – the first overvaluation since mid-January), remain constructive on the currency and expect EUR/GBP to return to the 0.85 level. GBP to see some modest recovery today.

NZD: First signs of slowing housing demand

A survey of realtors in New Zealand showed housing demand has decreased after the Government implemented measures to curb speculative buying two weeks ago.

The effectiveness of those measures is a key condition to keep Reserve Bank of New Zealand rate expectations capped. The central bank's chief economist will speak at a conference at 22:30 GMT today, with markets looking for some hints ahead of the 14 April policy meeting. The Bank's rhetoric is likely to stay comfortably on the dovish side, but front-end rates have likely bottomed out, suggesting limited downside room for NZD, also considering a much more balanced speculative positioning.