

FX Daily: Too hot, too cold, where's Goldilocks?

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📉 USD: Dollar approaching a crossroads

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A few weeks ago it was the bearish steepening in the US Treasury curve and fears of economies running too hot that was prompting a re-pricing of risk assets and lifting the dollar. This week it has been Europe's failure to prevent a third wave that has seen fears grow of a cooling global economy, a bullish flattening of yield curves, weaker commodities and a stronger dollar. Looking at the case rates in Europe currently, particularly the alarming rise in new cases in France, Poland and particularly Hungary, it may be a little early to conclude that we've reached peak European pessimism.

Yet [our macro team's view](#) is that the European policymakers will be able to get 50-60% of their

population vaccinated this summer and that it looks far too early to write off a European recovery this year. We believe recent moves in FX markets are corrective and not part of a new 2021 trend. Yet we expect investors will want to see some stability first before re-entering short dollar positions. In theory, the recent correction should have a chance of pausing today.

Equities have done well in Asia overnight and financials should do well with the [Fed announcing last night](#) an end to the bank dividend ban on 30 June. US data should not support the dollar either today, given soft February spending data. Can DXY end lower? If and when the market stabilises, we think [NZD may be one of the first to recover](#).

➔ EUR: Vaccine nationalism takes a breather

The EU summit continues today, and it seems that leaders, speaking with the UK, are looking for an amicable path forward rather than outright export bans.

Today sees March German IFO. The manufacturing indices in the national March PMI readings were very strong indeed and point to a strong IFO. Enough to stabilise the EUR? EUR/USD price action has been so poor recently and EUR/USD would need to close above the 1.1810/30 area to suggest that some kind of low had been seen.

Failing that, the next stop is 1.1700.

➔ GBP: EUR/GBP marks out a 0.8540-0.8640 range.

GBP out-performed yesterday as EUR/GBP traces out a 0.8540 to 0.8640 range.

Petr Krpata had noted GBP's improved short term fair value yesterday.

➔ PLN: Under pressure

EUR/PLN has traded up to the highest levels of recent years near 4.65, with the PLN hit both by the EUR/USD correction and the focus on the [Polish Supreme court's ruling on April 13th on CHF mortgages](#).

It looks too early to fight this upward EUR/PLN trend just yet, with the risk of acceleration should EUR/PLN trade through 4.6500

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