

## FX Daily: USD going its own way

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### USD: Dollar correlations with other asset classes stalling

The trade-weighted dollar is up just over 2% from its lows in early January.

Noticeable is the softening negative correlation of the dollar with equity markets and it is hard to put a finger on what is driving this. True, US yields have been picking up slightly, but the rise in German Bund yields has matched those of US Treasuries this week. And certainly, [the US vaccination roll-out](#) looks far more impressive than that in Europe, though year-to-date gains in the US S&P 500 (+3.08%) only marginally outpace those of the Eurostoxx 50 (+2.52%).

Heavy [short dollar positioning](#) probably plays a big role here and would again seem vulnerable were any part of today's non-farm payrolls jobs data be greeted positively. Consensus looks for around a 100k gain after the 140k decline in December. Any upside surprise could see DXY extend its rally to the 100-day moving average at 91.88 – but we still prefer to see this as a bear market

rally.

## ➔ EUR: 1.1880 looks the risk today for EUR/USD

EUR/USD has been trading heavy all week. The slow vaccine roll-out in Europe may be playing its part.

[Some estimates](#) see the US reaching herd immunity with its vaccine plans by early August, while the EU may not reach that milestone until late October. Based on a target generated from a reversal pattern in USD/CHF, we would say this EUR/USD correction can run to the 1.1880 area – although we see this as a correction to a 2021 bull trend and would not expect it to spend much time down at these levels.

In Europe today, the focus will be on whether Mario Draghi is able to build a new technocratic government in Italy. The Italian bond market seems to think this is a done deal, but confirmation after difficult negotiations would be welcome.

## ⬆ GBP: UK markets re-price after the BoE

The [Bank of England's strong hints](#) that negative rates would not be used at this stage in the economic cycle triggered a substantial re-pricing in the UK money market curve and GBP. And the decisive break lower in EUR/GBP might even be partly responsible for the EUR/USD decline.

As [Petr Krpata discusses in this video](#), we think the GBP recovery has legs and is on a gradual path to EUR/0.85. Look out for comments from Governor Bailey at 1315 and 1430 CET today.

## ⬆ CEE: Central bank delivers hawkish message

As [our team expected](#), the Czech national bank delivered a hawkish message yesterday, including a forecast that projects three to four hikes in 2021. The theme of normalisation of monetary policy (and the positive implications for local currencies) will build through the year – with the Czech central bank leading the pack.

Our team sees risks that EUR/CZK makes it as low as 25.00 this year.

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