

## FX daily: Patiently accommodative

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Federal Reserve  
Chairman Jerome  
Powell

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### 📌 USD: Patiently accommodative

Both US January CPI and Chair Jerome Powell's speech yesterday underlined the positive outlook for cyclical FX for upcoming months, particularly in early Q2.

While US CPI pressures are present in the US and inflation is set to rise, they don't show signs of being out of control, in turn allowing the Fed to stay cautious and fully stick to the AIT framework.

This was reiterated in Chair Powell's speech which, rather than focusing on prospects of a fast recovery and the risks of overheating, focused on the struggling labour market, the associated downside risk and the need to keep monetary policy "patiently accommodative." This means that any shift in the policy stance (to a hawkish, less accommodative side) is not imminent, US front end rates are to remain anchored, the US curve is set to steepen further and real rates are to remain deeply negative.

As the global economy starts its post-winter recovery in Q2, this suggests more upside to cyclical currencies, while negative US real rates should also offer to help hands to the low yielding ones, such as EUR vs the dollar

## ➡ EUR: A calm day ahead

It is a very quiet day on the Eurozone data front.

The lack of USD upside after yesterday US data points suggests EUR/USD is to stay above the 1.2100 level.

## ⬆ GBP: Set to re-test the 0.8750 level

Michael Gove is meeting European Commission VP Maros Sefcovic today with the UK requesting a delay in a border checks implementation between Northern Ireland and the rest of the UK - a part of the Brexit deal. It looks unlikely that an agreement will be reached today, but it should be perceived by the market as a minor issue, unlikely to affect GBP much.

GBP outlook for coming weeks is constructive and EUR/GBP is set to re-test the 0.8750 level today.

## ⬇ MXN: Banxico to cut rates, but the key to MXN will guidance on future cuts

We expect Banxico to cut rates by 25bp today, following the change in the monetary policy board composition from the three versus two hawkish split seen in December into a three versus two dovish split currently.

As the upside surprise to the January CPI does not make today's easing a clear cut call and the market pricing in less than 50% probability of a cut, the possible rate cut today should be MXN negative.

But unless Banxico signals a commitment to further easing (which is uncertain given the need to retain a wide rate differential vs the US), the impact should be limited (beyond today's reaction) and MXN is likely to continue benefiting from the benign risk environment, the recovering US economy as well as the still respectable yield advantage.