

FX Daily: Waiting on Powell to calm things down

The main event of the day is the Q&A between Fed Chair Jerome Powell and the Wall Street Journal, as this will be the last chance to hear from the Fed before it enters the two-week blackout period this weekend ahead of the 17 March FOMC meeting. The tone could well set the risk tone for the next two weeks



Federal Reserve
Chairman Jerome
Powell

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➔ USD: Will Powell show concern over the Treasury sell-off?

Bond markets continue to drive the global investment environment, including risk-taking in FX markets.

This week had seen sentiment improve when Fed's Lael Brainard on Tuesday said the Treasury sell-off had 'caught her eye'. But bonds sold off yesterday when the ECB seemed to back away from its concern over the European bond sell-off.

This brings us to the main event today, which is a Q&A between Fed Chair Jerome Powell and the Wall Street Journal at 1805CET. This will be the last chance to hear from the Fed before it enters the two-week blackout period this weekend ahead of the 17 March FOMC meeting. The tone of this

Q&A could well set the risk tone for the next two weeks. Comments that he's monitoring events in the Treasury market might be enough to calm things down, encourage a return to high yield FX and a softer dollar but no such concern would suggest the Fed is happy for US Treasury yields to 'find the right level' – as our bond strategy colleagues say – potentially triggering another spike in US yields and more dollar short-covering.

For today, a soft night for Asian equities points to risk staying on the backfoot today. Also [look out for headlines from OPEC+](#), where confirmation of unchanged output levels into April could keep Brent supported. Please [also see our latest update on commodity currencies](#), on a day when Australia reported a huge trade surplus.

[Re-assessing the commodity-FX relation](#)

➔ EUR: A German path out of lockdown may help

Financial markets like numbers and expect to hear more about the German new virus case rate per 100,000 people.

In announcing a path out of lockdown, Chancellor Angela Merkel's plan heavily relies on the new case rate falling below 50 per 100,000 people. This number stood at 64 yesterday. News also that vaccine logistics should improve in early April continue to support the view of 2Q being the break-out quarter for European growth and suggests any EUR/USD foray under 1.20 is short-lived.

Look out for some ECB comments from Klass Knot.

⬆ GBP: Generous budget, well received

Yesterday's [UK budget was seen to strike the right balance](#) and support the spring recovery. Gilts sold off on the larger than expected supply plans, yet we think the re-assessment of UK growth prospects can support GBP.

Cable is caught up in the bond sell-off, but a further rally in GBP/CHF is our conviction call.

⬆ CNY: Bomb proof bond market

The mini tantrum in Treasury yields has caused the customary rout in emerging market local currency bond markets. 10-year yields are up 200bp in BRL, 67bp in ZAR, 51bp in Mexico. What about Chinese local currency bonds? +3bp! China is positioning its asset markets well as a store of value with low volatility – good news for CNY.

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