Dollar declines following December CPI, Brainard's hearing up next

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GBP

Yesterday morning's flat price action in GBPUSD wasn't set to last with such an instrumental US CPI release scheduled for the afternoon. With markets pricing an aggressive normalisation cycle from the Fed this year, the inflation release arguably undershot expectations and the decline in US 10-year yields set the dollar on its path lower. This resulted in sterling extending its recent rally to hit highs not seen since October 2021 as it notched a further 0.47% gain on the day. This morning, GBP traders continue their bullish stance on the currency, but as Asia passes the liquidity baton to Europe this morning, the broad dollar remains choppy across the G10 space. Outside of economics, political pressure has moderated somewhat following PM Johnson's public apology in the Commons yesterday. However, as more and more scandals start to see the light of day, the political backdrop will remain a tertiary area of concern for markets.

EUR

The single currency was dragged higher by both falling back-end Treasury yields and sterling yesterday after GBPEUR stopped short of breaking levels not seen since the onset of the pandemic. EURUSD now sits at levels not seen since mid-November after notching gains of 0.67% in yesterday's trading session. Today, with little scheduled in terms of European data, the euro will likely take cues from the US bond market as more policymakers are scheduled to speak. In politics, senior French politicians are urging Emmanuel Macron to focus on the robust economic recovery from the pandemic instead of getting caught up in the French electorates slow shift towards the right. Meanwhile, there is little update on events in Italy as the Presidential election draws closer.

USD

If you were to predict the market reaction to a near 40-year high US CPI print of 7% ahead of time, chances are you wouldn't have guessed yesterday's outcome correctly across all markets. While headline US inflation did pick-up, and the core rate rose further by 0.6% MoM to print at 5.5% YoY, the market was arguably tilted towards an even higher beat in expectations and a broader composition of the price pressures. Following the broadening of inflationary pressures in October's CPI report and the Fed's retirement of the word "transitory", December's inflation report was largely driven by a few components. Previous areas of strength outside of used car prices and rents such as food inflation and recreational services showed a slowdown in price growth in December. This slowdown arrived just ahead of January's report where the arrival of Omicron is likely to drag on high contact services inflation further as demand drops off. Overall, while we think yesterday's inflation report confirms market pricing of a minimum of three rate hikes this year, we weren't convinced that it would support entirely 4 rate hikes and quantitative tightening. Markets initially agreed with this as front-end Treasury yields dropped, while 10-year yields sustained their losses throughout the course of the session. This helped soothe equity markets that have been bruised this week by pricing in US bond markets and also led to a decline in the broad US dollar. The dynamics visible in yesterday's trading session have seemingly mapped over to today's as Treasury yields moderate ahead of the US cash open, while the dollar remains weaker at the margin against high beta currencies. Today, more focus will sit on Fed policymakers as both Bullard and Harker have come out with hawkish rhetoric in the aftermath of yesterday's inflation data. Bullard, a notable hawk within the FOMC, has come out in support of 4 rate hikes this year, while Harker, who also sits on the hawkish side of the spectrum but not to the extent of Bullard, wrote in favour of 3 rate hikes this year in the Financial Times this morning. Further commentary from Fed members is likely today, especially as Vice Chair nominee Lael Brainard is set to speak in front of the Senate banking committee this afternoon at 15:00 GMT and both Barkin and Evans are set to discuss their economic outlooks at 17:00 GMT and 18:00 GMT respectively.

CAD

Like the rest of the G10, the Canadian dollar surged against the greenback in yesterday's session despite the 7% print in US CPI. The Canadian dollar etched out gains of 0.53% to extend its rally over the course of the week to 1.18%. This morning, the loonie sits marginally higher against the dollar as its spot level trades around rates last seen in mid-November before the October US CPI report sent the US dollar higher. Today, there is nothing scheduled on the Canadian data calendar, while domestic news concentrates on Quebec's imposition of an anti-vax tax following a third of the provinces' hospitalisations are accounted for by those unvaccinated despite only 12.8% of the population not having the jabs as of yet.