

Near-term EM forecasts continue to shine in month defined by risks for FX space

6th April 2021

FX forecasts and associated rankings are published on behalf of Monex Europe and Monex Canada.

In contrast to a volatile February, March saw a more decisive trend in the dollar. Against the expanded majors basket, only ZAR, MXN, NOK, CAD and INR posted gains against a broadly resurgent dollar.

The greenback's strength was largely driven by reflationary dynamics and further progress in US vaccination roll-out, while renewed risks in other nations saw the dollar benefit further. Overall, the expected US economic outperformance drove the DXY index back to November highs towards the end of the month, despite the Federal Reserve tempering front-end yields. Our expectation of mild USD weakness against G10 currencies in Q1 resulted in a relatively poor set of near-term rankings, but the accuracy of our longer-dated forecasts confirms our mildly bearish view on the dollar. Meanwhile, our more selective stance on USD weakness in the EM space yielded a positive set of near-term forecasts, notably in ZAR, CNY and BRL.

Looking forward, we have tweaked our near-term forecasts in the G10 space to reflect a mild stance on USD weakness, notably against currencies where domestic risks remain elevated (EUR and JPY) and where rallies are starting to peter out (AUD, NZD and CNY).

G10

Within the G10 space, our near-term forecasts suffered from the resurgence of the US dollar. This was most notable in EURUSD and USDJPY. With the former, the sluggish vaccine roll-out was well known and capped the upside for the single currency, however, the recent spike in domestic Covid-19 cases and the corresponding tightening of lockdown measures caught our 1-month forecasts by surprise. Meanwhile, after adjusting for the higher USDJPY rate, the continuation in yen weakness against the dollar resulted in a top 20 ranking.

“ Looking forward, our expectation of USD weakness is much milder (see USD outlook here) against the broad G10 basket, however, pockets of deeper USD depreciation are likely to appear in the

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“ coming months ” our April forecasts can be found [here](#).

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RANKINGS

Currency Pair	1-month	3-month	6-month	12-month
EURUSD			13 th	2 nd
GBPUSD		19 th		
USDJPY	17 th	5 th	3 rd	3 rd
AUDUSD	10 th			4 th
USDCHF			9 th	5 th
EURCHF		9 th		
USDSEK			1 st	10 th
EURNOK	6 th			

Emerging Markets

Our more selective stance on USD weakness against EM currencies boded well over the short-term, especially given the rise in idiosyncratic risks within the space over the course of the month. The ruble had to contend with the rising threat of sanctions from the US due to election interference, while the Turkish lira was jolted by the removal of the CBRT governors. In Brazil, rising covid cases, limited fiscal room and growing external pressures put the real under substantial pressure and pushed it back to pandemic levels. This resulted in the BCB intervening by selling trillions of dollars in FX swaps in order to stem the real's slide.

“ Given the level of idiosyncratic risks that emerged over the course of March within the EM space, the performance of our forecasts has been exceptional.

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RANKINGS

Currency Pair	1-month	3-month	6-month	12-month
USDRUB	7 th			
USDZAR	6 th	8 th		
USDTRY	9 th			
USDCNY	3 rd	9 th		
USDMXN	9 th		1 st	
USDBRL	1 st			

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