March 2021

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Key currencies at a glance

Key themes in March:

- Treasury yields are surging across the world, reaching pre-pandemic levels and triggering a move away from riskier assets. If yields continue to go higher this could increase volatility and negatively pressure high equity valuations and "riskier" currencies.
- The success of COVID-19 vaccine rollouts continues to be an important factor driving direction of the major currencies.
- Sustained strength in commodity prices could continue to support AUD, NZD and CAD.
- March will be a busy month for central bank data releases however current programs are expected to be maintained. Watch out for any changes in policy which could trigger volatility.

Here, our OFXperts outline what to watch.

Euro | EUR

The euro closed February almost flat versus USD, giving away the majority of its monthly gains at the end of the month when risk aversion and volatility brought demand for USD. This pushed the euro below its 50-day moving average and what had been an important lower trading level of around 1.21.

European bond yields ended the month higher, triggering some volatility in European money markets, which prompted European Central Bank officials to hint further support through an acceleration on asset purchases.

If the Euro is not able to break above 1.2150 USD in the short term, it could continue to lose ground and test lows of 1.2030 (100-day moving average). Should the pace of the bloc's coronavirus vaccination programme not begin to pick up to match UK and America some countries could see a return to restrictions. Such a scenario could open the way to 1.1950.

Sterling | GBP

The pound has been the strongest G10 currency since the start of 2021, due to the success of the vaccine rollout. As expected, the UK now have a path out of the lockdowns that have been in place since the start of the year, giving business' some degree of confidence that the worst is now over. Shortly after the road map was unveiled GBPUSD hit its highest level since April 2018.

If the pound can hit 1.40 USD handle the next key level for it will be 1.41 and for GBPEUR, 1.16. If GBPUSD can break 1.4240 (its peak in the final week of February) then this should open the door to a return to highs not seen since June 2016.

Given the relative certainty compared to the Brexit upheaval of the past years, and the continued vaccine rollout, the pound should continue to be well supported in March. Watch for the Bank of England's interest rate and monetary policy announcements on March 18.

Based on current conditions, GBPUSD could trade within a range of 1.39–1.4240 in March.

Australian dollar | AUD

While equity performance continues to provide guidance on broader risk demand in February, the reflation narrative and elevated commodity prices, particularly copper and iron ore, two key Australian exports, helped AUD break above 0.80 USD for the first time since February 2018.

However, it then quickly dropped to a three-week low of 0.7706, after a sharp rise in US Bond Yields which set off a sell-off in global equities.

In March, the reflation narrative should continue to steer market direction and strengthen commodity prices, supporting the current AUD upturn. We are watching for another break above the psychological 0.80 cent handle as expectations for a recovery in H2 firm and the global vaccine rollout continues.

If the AUD can't break the 0.80 level again this could see investor demand for the currency waiver. Stock market volatility, seen in late February, could also put downward pressure on the AUD. In March, AUD could trade within 0.7550–0.8010 USD

US dollar | USD

US dollar was delicately balanced in February, with the DXY index ranging from 89.68–91.60. Initially, the stock market was the main driver of the USD, however, by the end of February, higher yields in treasury bonds became the catalyst for a stronger USD. This, along with good news about the global vaccination program implementation, might generate market volatility over the next few months.

If stock market volatility increases or if there are concerns around loose monetary policy causing too much exuberance, the US central bank might be more hawkish (giving signals of tightening monetary policy), which would trigger the USD to go higher. Watch for the Fed's commentary on March 17.

Canadian dollar | CAD

Surging commodity prices and a weaker USD drove gains for the Canadian dollar in February, pushing the USDCAD to 1.2467 CAD, a 3-year low. However, along with other commodity currencies, its gains were erased in the last week of February. It went back to 1.2740 CAD, and it appreciated only 0.8% after being 3% stronger than the US dollar.

CAD resilience against USD should continue into March, especially as Canada's slow vaccine roll out picks up speed and Canadian two-year bond yields exceed their U.S. equivalents by ~17.2 points. In March, USDCAD could trade within a range of 1.22–1.30 CAD.

Japanese yen | JPY

The Japanese yen has been struggling so far this year, in line with a positive risk sentiment. Surprisingly, the JPY did not enjoy gains as a safe haven when risk sentiment soured at the end of February, but did perform well against the USD compared to the other majors. It remains to be seen what will happen with the JPY if equity weakness and volatility continues.

If the market is able to consolidate a break above 106.50 on the USDJPY, this could open the door to 107 JPY, a level not seen since August 2020. Demand for the yen could materialise if investors abandon the "buy the dip" risk mentality under a more sustained equities correction.

New Zealand dollar | NZD

February saw the NZD gain against the euro and USD, hitting two and three-year-highs respectively. The outperformance wasn't universal though, with the kiwi edging lower against both GBP and AUD.

The reflation narrative has prompted rallies in commodity prices. This, coupled with confirmation the RBNZ will maintain monetary policy setting through the month ahead with a view to tightening interest rates in Q1 2022, has helped to support the NZD.

New Zealand's domestic economic performance is ahead of early estimates and the global growth outlook continues to improve, suggesting that the NZD should enjoy sustained upside in March. The NZD may trade in a wide range in March, between 0.7080 -0.7500 USD.