Ebury What borders?®

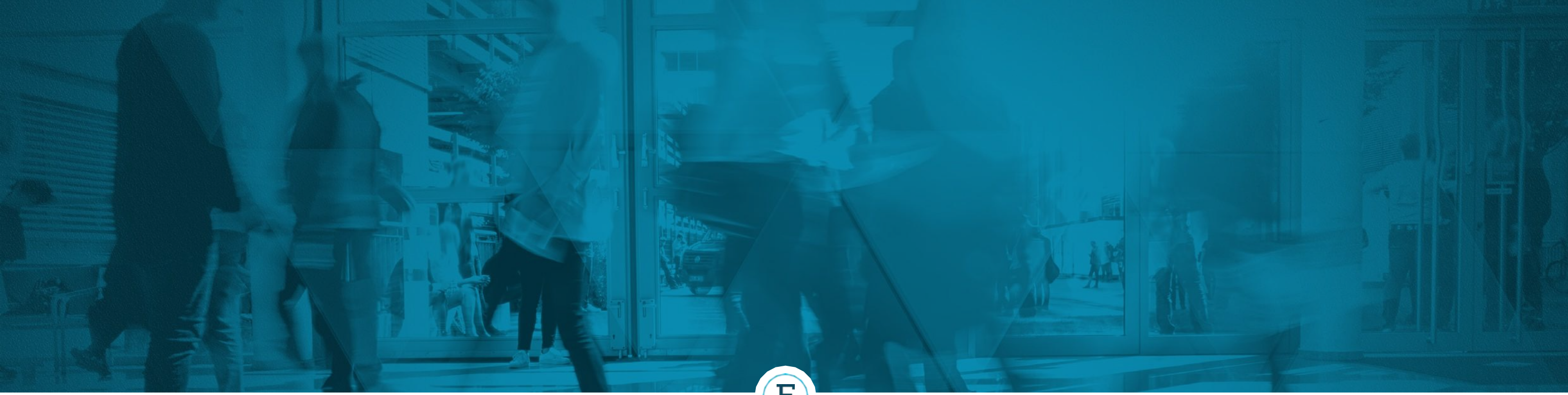
Weekly Report

Weekly FX Market Update

Written by:

Enrique Díaz-Alvarez, Matthew Ryan, Roman Ziruk & Itsaso Apezteguia

13th September 2021



Inflation concerns send yields higher, while ECB announces PEPP 'recalibration'

The stagflation concerns from the August payroll report in the US were confirmed by another labour market report (JOLTS), which showed unfilled job openings soaring to another all-time high in July.

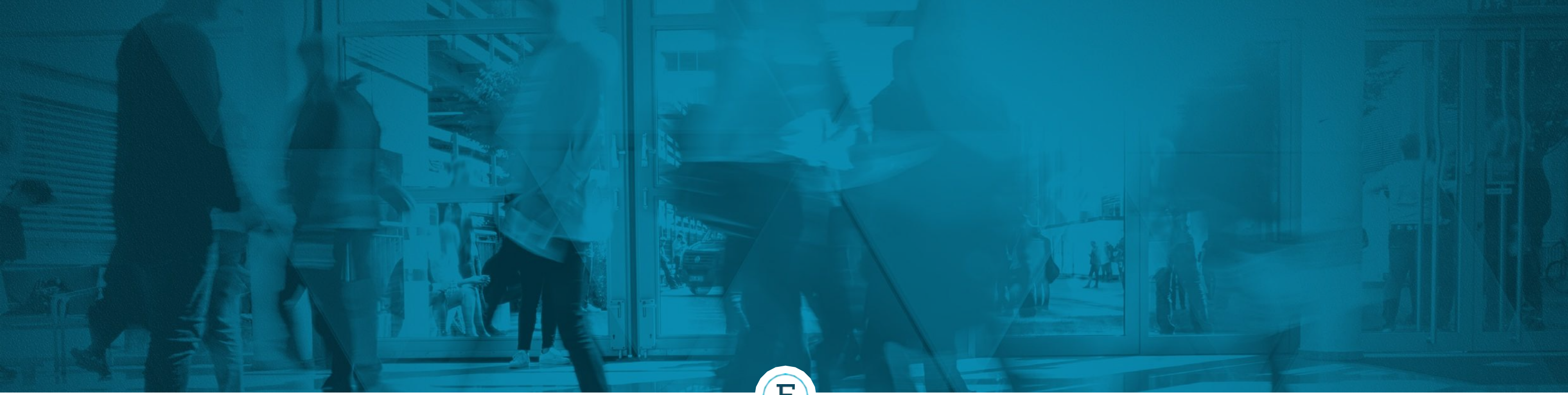
Yields continued to march higher worldwide, risk assets wobbled, and major currencies did not do much of anything, staying within 1% of each other for the most part. The US dollar outperformed all of its G10 peers and most EM currencies. The ECB announced a cut in its monthly PEPP bond purchases, but President Lagarde insisted it was not a taper but 'recalibration', while euro traders shrugged off the event for the most part.

This week major macro data will be focused on inflation. US inflation data for August is out Tuesday, UK print is out on Wednesday, suggesting we might see some volatility around the middle of the week. Expectations are for continued evidence of inflation pressures in both countries. Aside from that, traders will be cautious ahead of the critical Federal Reserve and Bank of England meeting the week after this one, as well as the upcoming German elections.

CZK

The Czech koruna proved to be more resilient than the PLN and HUF last week, ending it slightly higher against the euro. A key reason for that outperformance is quite obvious, as the currency's rally took place on Friday, after the release of the CPI report showing a much stronger increase in inflation than expected. Consumer prices grew by 4.1% from the previous year and 0.7% month-over-month, a rapid pace by any standards. This led to a surge in expectations regarding monetary policy tightening, with the market now betting that interest rates in Czechia will return to pre-pandemic levels within 12 months.

This week's economic calendar isn't particularly busy, but considering recent surprises on the inflation front we'll focus on Thursday's PPI inflation reading for August expected to show another increase, to the highest level since 1993.



EUR

The outcome of the September ECB meeting was in line with market expectations. A cut of unspecified size was announced to the monthly PEPP purchases of Eurozone sovereign bonds. However, President Lagarde somewhat bizarrely went out of her way to assure markets that this taper was not, in fact, a taper. Less noticed were the ECB inflation projections, which foresee a return to below target 1.5% inflation in 2023. This could be interpreted as a dovish signal and therefore negative for the euro, but the dismal track record of ECB inflation projections argues against taking it too seriously.

USD

The JOLTS labour data report showing yet another surge in unfilled job openings in the US sets up rather nicely for the inflation report on Tuesday. Yet another upward surprise here may seriously dampen the mood for the following week's Federal Reserve meeting. However, the effect on the US dollar of recent stagflationary news and the consequent rise in yields has been notoriously hard to predict. Aside from that, traders will be looking to second-tier data releases for confirmation that the softening trend in growth data is maintained.

Ebury
Stodolní 9 702 00 Ostrava, Czech Republic
+420 558 080 074 | info@ebury.cz | ebury.cz