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Weekly Report

# Weekly FX Market Update

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## Wobbly stock markets trigger rush to safe-havens

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Another week of risk asset sell-offs had a predictable effect on currency markets.

The Japanese yen topped the week's performance charts, followed by the US dollar. European currency stalled again, and commodity currencies like the Norwegian krone and the antipodean dollars fell sharply. Emerging market currencies fell against the US dollar, although they continue to more than hold their own against the euro, in a sign that rising commodity prices are still a driving factor in currency exchanges.

The key concern driving markets is the extent to which central banks can bring inflation back in line with targets without serious damage to growth prospects. High-frequency data like US retail sales on Tuesday will take on added importance. Nevertheless, it will be a data light week and therefore communications from central bank officials will be in the spotlight. In addition to a slate of ECB speakers, watch out for the publication of the ECB April minutes. Meanwhile, the UK inflation print on Wednesday will be key for the pound.

### CZK

The Czech koruna was on a rollercoaster last week. It sold off on Wednesday after a confirmation that Aleš Michl will be CNB's new governor only to rebound the following day on CNB intervention. In the end, it managed to post gains for the week, outperforming its regional peers.

Last week's inflation data surprised to the upside, with price growth reaching eye-popping 14.2% in April. Core inflation surged to 12.8%, its highest level on record. Data surprises in Czechia fit with the regional pattern, with all of the CEE countries we cover posting much stronger than expected price increases in April. Although we're likely nearing the top in inflation the data may force the CNB's hand to raise rates again at the next meeting before the start of Michl's term as a governor. We'll, however, have to wait for more data, including May's inflation print to make an accurate prediction.

Key economic print for this week - PPI data - was already released today and showed a stronger-than-expected increase in producer prices in April. This may further add to the argument for a hike in June. In the coming days we'll keep waiting for any information about the personnel changes on the CNB Board as this will determine the level of hawkishness the bank will exhibit from July and is therefore key for the koruna.

## EUR

In the absence of major data, traders last week fret over issues like natural gas supplies and their effect on industrial production. Aside from that, sentiment data was not good but we note that the more informative PMIs continue to hold up well in growth territory. It is hard to see high risks of recession with the composite index well above 55 (50 indicates flat performance).

The hawkish rhetorical shift in the ECB has not yet helped the common currency, but we think it is a matter of time before it does. With a slate of speakers and the April meeting minutes on tap this week, we may be looking at an opportunity for a countertrend euro rally.

## USD

Second-tier economic data out of the US last week did not significantly change the picture of an economy at full employment, struggling with supply side constraints but still growing. Manufacturing and retail sales data out this week will provide the latest read on the health of the US economy, but they are unlikely to move the needle much.

Currency trader focus will remain on the gyrations in the bond and equity markets. We think the flight to safety knee jerk move looks overdone and a stabilisation in stock markets could be enough for the US dollar to give up some of its recent gains.

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