



Ebury What borders?®

Weekly Report

# Weekly FX Market Update

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## Currencies in holding pattern ahead of fresh inflation data

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G10 currencies ended the week not far from where they had started it, as the news calendar turned relatively light and investors digested central bank communications.

The week's winners were the Norwegian krone and the Swiss franc, the latter boosted by the aftereffects of the Swiss National Bank's dramatic hawkish surprise earlier in the month. Emerging market currencies were a mixed bunch, but for the most part they held up rather well in view of the massive sell-off we saw last week across the commodity complex.

The rally in risk assets last week suggests some easing on investor concerns about the inevitability of a recession, as central banks struggle to get inflation under control. Inflation data out on Thursday and Friday will be in focus on both sides of the Atlantic this week. The US May PCE data will likely confirm the earlier CPI report. More critical will be the Eurozone flash inflation report for June, the earliest read of inflation across all economic areas. A print above 4% in the core index would put further pressure on the ECB to accelerate its timetable for hikes, potentially buoying the common currency.

### CZK

The koruna ended last week little changed against the euro but outperformed its regional peers.

As we expected, the hawkish board governed by Jiří Rusnok decided to go with a large hike of 125 basis points, which brought the two-week repo rate to 7%. In effect, Czechia boasts the highest reference rate in the region, reflecting its determination to bring down sky-high inflation. The hike was roughly in line with expectations – economists were split between a 100 and 125 bps increase. Since a move of similar size was also priced-in by the market, the koruna did not receive a boost from the CNB.

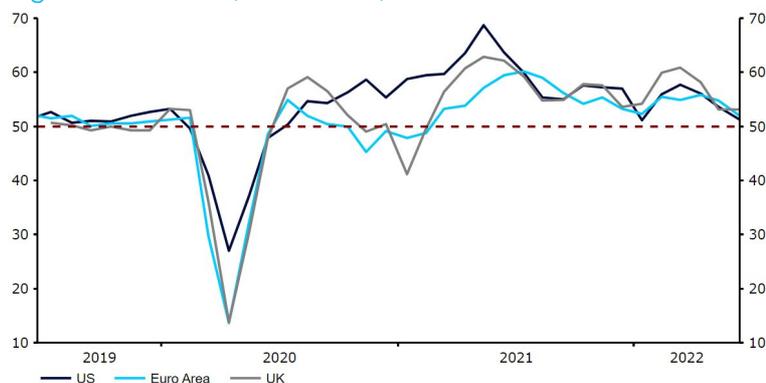
It's entirely possible that the super-sized hike was the last one in this cycle, albeit uncertainty over the monetary policy in the coming months is undeniably high considering the rapidly changing global environment, local developments, and the fact that since July, the Board's composition will change significantly.

This week we'll focus on the economic data from Czechia, particularly the forward-looking manufacturing PMI print for June, out Friday. Recent data from the Eurozone disappointed and consensus expects that we'll see a similarly weak print in Czechia, not far from the 50 level separating expansion from contraction in the sector.

## EUR

The PMIs of business activity for June were broadly disappointing, falling back significantly. The composite index slipped to 51.9, its lowest reading since February 2021. While they all remain at expansionary levels across the major economies of the Eurozone, the downward trend needs to be watched closely, as these indices remain the best leading indicator for European growth.

Figure 1: G3 PMIs (2019 - 2022)



Source: Refinitiv Datastream Date: 27/06/2022

This week could be quite crucial for the euro. In addition to the June flash inflation report, the ECB's annual forum on central banking takes place. Markets are expecting to see at least some details on the coming "anti fragmentation" tool, which was announced to be in the works following the bank's recent ad-hoc meeting. Should this be deemed by investors as sufficient in order to close bond spreads in the bloc, then we could see some modest support for the euro this week.

## USD

The dollar retreated modestly last week from near multi-year highs. Three factors appeared to weigh on the dollar. First, the retreat in US yields, as markets find it increasingly implausible to price in more hikes from the Fed in the near-term. Second, the general rebound in risk sentiment, which is now a clear negative for the safe-haven dollar.

Finally, trader positioning looks increasingly long dollars, as a near consensus seems to be established for a stronger greenback, which makes it difficult for it to rally further and turns mild setbacks into stop loss driven sell-offs. We think that a strong Eurozone inflation report on Thursday could lead to a strong countertrend sell off-in the dollar.

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