Ebury What borders?®

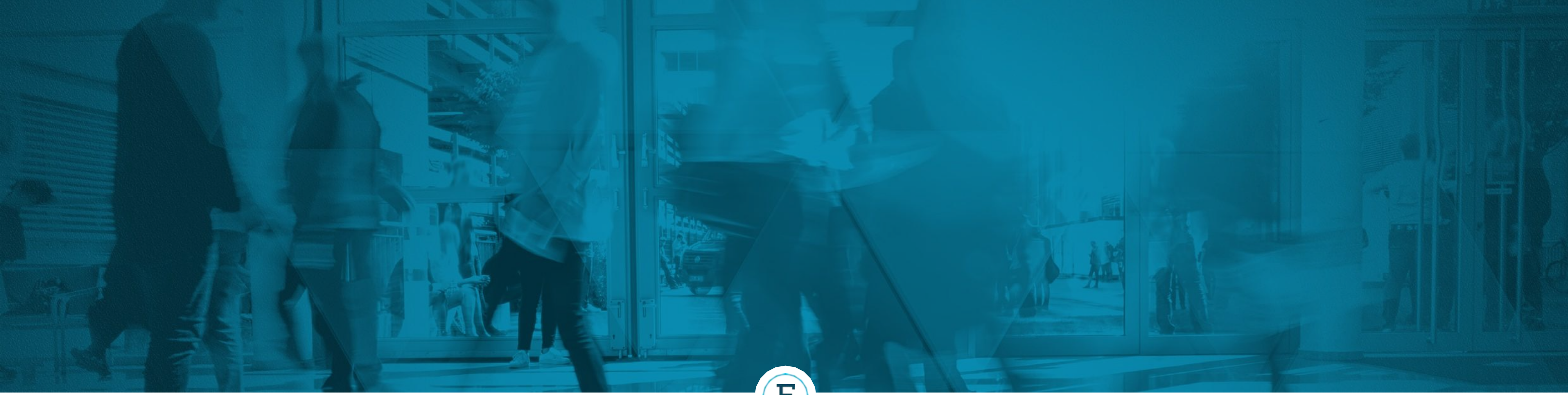
Weekly Report

Weekly FX Market Update

Written by:

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

21st November 2022



Dollar rebounds on hawkish Fed officials

The dollar recovered somewhat from its recent drubbing on the back of a steady drumbeat of hawkish Federal Reserve speeches.

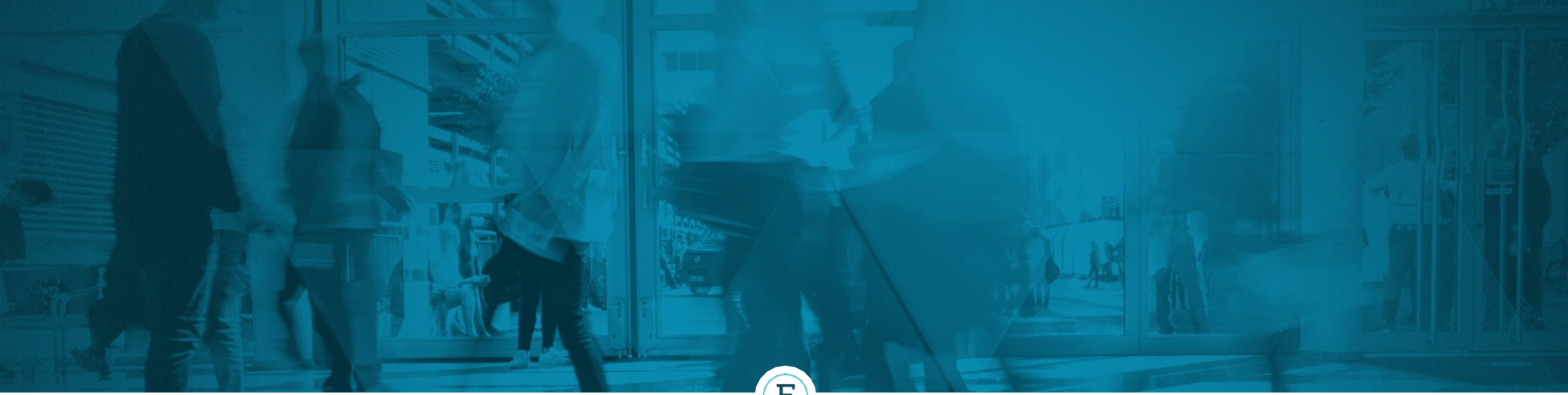
Data out of the US and the Eurozone was very light last week, and what there was came out generally better than expected and reinforced the message that the main problem confronting major central banks is still inflation. Sterling was the star of the week, finishing near the top of the rankings on the back of strong inflation and employment data. Beyond G10, it was a tough week for Latin American currencies, which fell back amid weaker commodity prices and concerns about misguided fiscal policies.

With the US trading week shortened by the Thanksgiving holidays, the financial calendar will be dominated by the release of the PMI indices of business activity. We'll be paying particularly close attention to those in the Eurozone and the UK. Consensus forecasts are gloomy, opening the possibility of a positive surprise. The calendar for central banker speeches is unusually busy this week, including several from the European Central Bank and no fewer than four from the Bank of England.

CZK

The Czech koruna ended the week slightly lower against the euro but overall it continues to remain resilient hovering close to its recent highs. Last week only second tier data from Czechia was released and it had little effect on the market. Current account data showed a much bigger deficit than expected for the second month in a row, to the tune of 55.8 bn CZK in September. PPI inflation fell and at 24.1% was somewhat lower than expected in October. Producer's prices in Czechia have lost momentum in recent months which brings some optimism with regard to next year's inflation and adds to the argument for near-term rate stability.

This week's economic calendar for Czechia is largely empty. Therefore, we'll focus mainly on outside news.



EUR

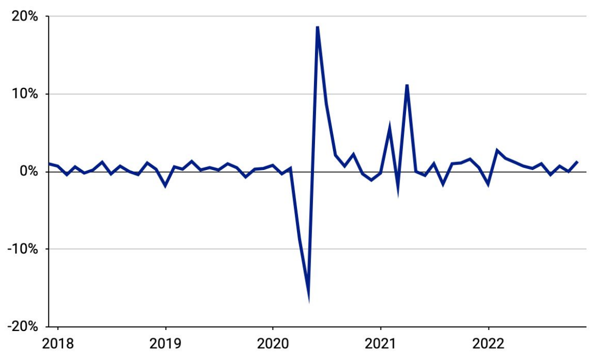
Last week we had no macroeconomic or policy news of note out of the Eurozone, so the common currency was left to bounce around aimlessly to end near the middle of the rankings, nearly flat against the US dollar after its record rally the week prior.

All eyes now turn to the PMI indices of business activity, perhaps the most reliable leading index there. Expectations are for another drop further into contractionary levels. Other sentiment indices have outperformed expectations, and the mood appears to be better than it was last month. A positive surprise there would go a long way to pushing the euro rally further.

USD

As in the Eurozone, economic data was mostly second tier last week, but what there was really belied the notion that the US economy is in recession. Retail sales blew out expectations growing 1.3% in the month of October. Meanwhile, producer inflation also took a turn lower, after the CPI did so the previous week.

Figure 1: US Retail Sales [% MoM] (2017 - 2022)



Source: Bloomberg Date: 21/11/2022

It does look like the Federal Reserve hiking campaign is beginning to have the desired effect, whereas most of its G10 central bank peers still lag and will have to make up for a lost time in 2023. This is particularly true of the Eurozone and the ECB, which is one of the reasons we remain bullish on the euro against the US dollar.

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