

FX Daily: Energy crisis trumps benign US data

European asset markets start the week under pressure after Russia's Gazprom said gas supplies via its Nordstream 1 pipeline would be indefinitely suspended. Expect European currencies to continue underperforming, with fiscal support packages unlikely to reverse recent trends



USD: The pre-eminent safe haven right now

What initially looked like a benign end to the week after some encouraging US jobs data quickly reversed on Friday evening when Russia's Gazprom announced it would be indefinitely suspending gas flows through its Nordstream 1 pipeline. While European nations have made progress towards their gas storage targets, such a complete, early withdrawal of Nordstream 1 supplies is likely to see European natural gas prices surge today and European equity markets resume under heavy pressure.

Over the weekend, authorities in Finland and Sweden announced liquidity guarantee schemes for large utility companies, making reference that they did not want an energy crisis to turn into a financial crisis. We have not yet really seen financial stress indices such as the 3m Euribor-ESTR spread start to widen appreciably. But understandably, international investors are looking to steer

clear of European exposure at present.

Offering 2.3% overnight deposit rates and backed by near energy independence and a relatively strong US economy, it should not be a surprise to see the dollar remaining bid. As we noted last week, we doubt the Japanese yen offers much of a safe haven at the moment given the nature of the crisis wiping out Japan's trade surplus.

For the week ahead the US data calendar is light, but we have several Fed speakers including Chair Powell on Thursday. Equally the G10 has several big central bank meetings including the European Central Bank (ECB), Bank of Canada (BoC) and Reserve Bank of Australia (RBA). All should be considering rate hikes at least in the 50bp region, if not 75bp. These size hikes can offer some support to respective currencies – but look unlikely to turn core FX trends around.

DXY is now comfortably through 110 and 111.30 looks to be the next resistance area. Don't fight the trend here.

Chris Turner

📉 EUR: Trial by gas

The gas news has sent EUR/USD to a new low for the year and it is not obvious where the next support levels exist – perhaps 0.9850 and then not until the 0.9600/9650 area. There is a risk of moving into 'fast markets' and understandably EUR/USD implied volatility is turning bid again.

Our German macro team feels that the weekend package of support measures to the German economy does not go far enough – worth just 2% of GDP compared to 15% of GDP levels of support seen through the pandemic. Equally, we think a 75bp hike at Thursday's meeting is a leap too far for the ECB – we look for 50bp. This will not help the euro either.

EUR/CHF should turn lower again after its recent spike higher. We expect the Swiss National Bank to be intervening on both sides of EUR/CHF now. But given the SNB's recent hawkish shift, we do not think it would have a problem with EUR/CHF at 0.95.

Chris Turner

📉 GBP: Searching for a floor

The broadly stronger dollar has seen GBP/USD losses extend and the 1.1410 March 2020 flash crash low come into view. The highlight of today's session will be the announcement of a new Conservative Prime Minister – widely expected to be Liz Truss. Most recently she has been discussing the need for an early and aggressive fiscal stimulus package – perhaps worth £100bn.

Such a fiscal package could see Bank of England tightening expectations push ahead even further. Normally, loose fiscal and tight monetary policy would be good for a currency. But given the negative growth environment – sterling is a pro-cyclical currency – it is hard to see the pound turn around against the dollar. Equally, it seems the UK bond market is starting to prove uneasy with the fiscal outlook – potentially inserting a sovereign risk premium into sterling, too.

Cable should stay offered, while 0.8600-0.8700 could be the new trading range for EUR/GBP.

Chris Turner

⬇ CEE: Gains at risk

A new month will bring [a heavy calendar](#) this week. Today, we will see second quarter wages in the Czech Republic, closely watched by the central bank, which expects real wages to fall by 13.1% year-on-year, more than the market. Today we will also see retail sales in Hungary, which should show an acceleration in the year-on-year pace due to a retroactive increase in pensions. On Tuesday, industrial production and foreign trade in the Czech Republic will be released. Leading indicators point to a further decline driven mainly by the automotive sector. On Wednesday, the highlight of the week will be the meeting of the Polish central bank. We expect a 25bp hike to 6.75% but given [the upside surprise](#) in August inflation, a 50bp hike may be discussed. Also, on Wednesday we will see Hungarian industrial production and Czech retail sales. On Thursday, August inflation will be released in Hungary. We expect a jump from 13.7% to 16.2% YoY partly due to the changes in the fuel price cap.

In the FX market, CEE currencies are maintaining recent gains while global conditions are mixed. EUR/USD around parity is keeping pressure on EM currencies, but gas prices have in turn allowed some temporary relief for the CEE region. However, in our view, this is not sufficient for current levels, especially in light of recent gas news, and domestic conditions are not helping the situation either. CEE economies are showing signs of slowing and the geopolitical story has not changed. Thus, it is hard to look for additional support from central banks and interest rates for FX. In our view, CEE currencies remain very sensitive to global events and may thus lose their recent gains. In our view, the most vulnerable at the moment is the Hungarian forint, which gained 2.6% just over the past week and dominated the EM world and we could see a correction back above 405 EUR/HUF this week. The Polish zloty will be mainly driven by the central bank decision. However, surprisingly high inflation has raised market expectations and it will be hard for the central bank to meet expectations, which may negatively impact the zloty and push the level closer to 4.75 EUR/PLN. The Czech koruna should return to Czech National Bank intervention levels after recent central bankers' statements have once again cooled market expectations and confirmed the dovish stance of the bank's board. Overall, we remain bearish on CEE currencies.

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