FX Daily: Finding a way out of gas inflation

The ECB tried to come up with a bold move, while in the US the market is bracing for a 75bp Fed hike. The main focus today will be the EU energy ministers' meeting to discuss an EU-wide solution to gas price capping. This could be a key message not only for the gas market price but also for the euro and CEE region

EU energy ministers meet today to discuss an EU-wide solution to gas price capping

USD: Markets cementing 75bp hike view

Any market reaction to Fed Chair Jerome Powell's comments yesterday got caught in the mix with ECB headlines, but – as noted by James Knightley here – there was nothing suggesting a shift from the current hawkish stance. Markets are cementing their view that the Fed will hike by 75bp (71bp is already priced in), also thanks to a larger-than-expected decline in weekly jobless claims yesterday. This should continue to offer a supportive undercurrent to the dollar, and DXY should remain around recent highs.

Today, the focus will be on some more Fed speakers: Charles Evans (generally a dovish voice), Christopher Waller (a hawk) and Esther George. After yesterday's comments by Powell, we doubt we'll see much market impact from today's speakers. The US data calendar is rather light.

Elsewhere in North America, Canada's jobs figures for August will be released today, and the key question is whether we'll see a positive headline read after two months of employment losses. Some robust numbers may help CAD marginally by pushing markets to price in 75bp worth of tightening by year-end, which is currently our call. However, external factors continue to be in the driving seat for the loonie, and a sustained decline below 1.3000 in USD/CAD may be a bit premature given risk sentiment instability.

Francesco Pesole

EUR: Hawkish ECB provides little support

EUR/USD price action after a hawkish ECB session yesterday proved very underwhelming. Short-dated yields moved in the euro's favour, but to no avail for the currency. In addition, when asked about the weak euro, President Christine Lagarde had little to say beyond the ECB being attentive. As we have been discussing recently, it seems growth differentials and the international investment environment are dominating the FX environment right now – neither of which are supporting the euro.

For today there will be much focus on the meeting of EU energy ministers. On the agenda to be discussed are price caps for Russian oil and gas, a levy on electricity suppliers, mandatory scaling back of electricity consumption, and liquidity support for utility companies.

This meeting may prove bearish for the euro for a number of reasons. For example, reaching an agreement on gas price caps, gas sharing and electricity levies look to be difficult and may be delayed. Mandatory electricity reduction could spark what the Belgium PM calls de-industrialisation and social unrest. There is also the risk that if Russian oil and gas caps are approved, Russia could immediately suspend the remaining oil and gas shipments coming into the EU.

With the Fed remaining hawkish, expect EUR/USD to stay offered in a broad 0.9900-1.0100 range.

Chris Turner

GBP: Sterling remains fragile

The UK Gilt market found little to sink its teeth into yesterday regarding the energy support package. Details were scarce in terms of the size of the package – probably around £150bn – and how it is to be funded. At least some of that funding looks set to go through the Gilt market – meaning that the 10-year Gilt-Bund spread can widen out to the 200bp area. That's a sterling negative.

Cable risks sinking back to the 1.1410 low. Given the challenges in continental Europe, EUR/GBP may trade close, but not break resistance at 0.8720.

Chris Turner

CEE: Negative drivers recede into the background

Friday's calendar for the region is completely empty, but the market will still absorb the echoes of the ECB and National Bank of Poland (NBP) and the surprisingly low inflation in Hungary. In addition, today's EU energy ministers' meeting could bring new news about gas prices. A dovish

NBP Governor's press conference and the Hungarian inflation number knocked rates lower again while EUR/USD is lower. So, all in all, everything points to weaker FX in the region, while the result is the strongest levels since mid-August.

Our belief is that this is due to another drop in gas prices, which has become the main driver of the region these days. Purely based on this relationship, we could see further appreciation, especially for the Polish zloty towards 4.680 and the Czech koruna towards 24.450 per euro. In addition, today's EU meeting could bring a further drop in gas prices and additional support for the CEE. However, nothing changes the previous arguments for weaker FX and the narrow influence of gas prices should not last forever. Thus, in the short term, the region may benefit from this relationship, but in the long term, we believe it should trade higher.

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