FX Daily: High oil prices not only good for oil exporting FX

The rise in oil prices is not only beneficial for oil exporting FX, but should also support those currencies where high CPI pressures are pushing central banks to tighten. With the Fed unlikely to react, this suggests that more NOK and CEE FX gains vs USD look to be ahead. Within the CEE FX space, we tactically prefer PLN and HUF to CZK due to positioning.

Source: Shutterstock

USD: High oil prices not only good for oil exporting FX

The lower than expected supply increase from OPEC+ producers has pushed oil prices to multi-year highs. This is not only positive for currencies of oil exporters (NOK, CAD and MXN) but, given that the rising oil price and associated base effects have contributed heavily to the rise in headline CPI inflation so far this year, higher oil prices and the further spillover into CPIs point to even higher prospects for tighter monetary policies. CEE currencies, where local CPIs are running meaningfully above targets, should benefit from tighter monetary stances (see below) while higher CPI prospects coupled with the recovering Norwegian economy both increase the odds of two hikes from the Norges Bank this year, in turn benefiting NOK. In contrast, with the Fed looking through the high prices and not planning to react on the interest rate side any time soon, deeply negative

USD front end real rates should continue to translate into softer USD, particularly against those currencies where local central banks are set to react. Hence, more NOK and CEE FX gains vs USD look to be ahead.

EUR: Rising CPI, yet the ECB is unlikely to react

EZ May CPI moved to the 2% level yesterday. Judging by the latest comments from ECB officials, any imminent shift away from the ultra-accommodative monetary stance seems unlikely, with QE tapering unlikely to be on the table in the June meeting. Still, as long as the Fed continue to look through the high price pressures too, this should be in relative terms more detrimental for the USD, particularly when the dollar is set to benefit less than the euro from rebounding global growth.

GBP: Dragged down by Indian Covid variant concerns

Concerns about the spread of the Indian Covid variant and the risks to the 21st June full reopening plans have yet again weighed on GBP. But with the EUR/USD on a general rise, this should partly outweigh the downside risk to GBP/USD, with the 1.4100 level providing a strong support. As for EUR/GBP, the impact of the negative spillover from Covid variant concerns is larger here (vs GBP/USD), yet we note that after the recent sterling decline EUR/GBP currently trades around 1% above its short-term fair value.

CEE FX: PLN and HUF to continue outperforming CZK

PLN outperformed its CEE peers yesterday following another increase in CPI and reports that the government is concerned about inflation pressures. With the MPC rhetoric shifting away from an ultra-dovish bias, a mix of QE tapering and rate hike/s in the second hald of the year now seems very likely. Coupled with the Polish current account surplus, this should help near-term PLN outperformance, particularly when the positioning is not as stretched as in the case of CZK. Tactically, we continue to look for PLN and HUF outperformance vs CZK. The tightly managed RON should remain largely flat into the year-end and with CPI set to rise this year, further RON depreciation vs EUR seems unlikely. This makes RON attractive from a carry point of view.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com