

# Dollar declines as market risk appetite improves

17th May 2022

## GBP

The pound broadly strengthened over the course of yesterday's session after a liquidity issue caused a brief spike in GBPUSD as markets opened the week. The move in sterling came despite the broad risk-off conditions in markets, highlighting the depressed valuation in the currency. The main event for GBP in yesterday's session was testimony by top Bank of England officials to the Treasury Committee. However, the commentary merely reiterated what was in the Bank's Q2 monetary policy report; that monetary policy can't tackle supply-side inflation shocks, but needs to be tightened to stop inflation expectations and wage renegotiations from drifting higher. In this regard, Bailey and Co's comments had little impact on markets. Sterling's gains have extended this morning, with the currency trading 0.7% higher against the dollar at the time of writing. Although part of the GBP move is reflective of the improve risk backdrop in markets, the currency was also boosted by a strong labour market report for March. Wage growth including bonuses outstripped expectations by 1.6 percentage points to print at 7% YoY for the quarter up to March. While this largely reflects a lower March 2020 base and higher bonuses in finance and business sectors, wage growth excluding bonuses also printed on the stronger side at 4.2%. In addition, the number of payrolled employees rose dramatically from 59k to 121k to round of a stronger labour market report on the whole. The emphasis now sits on tomorrow's CPI report for April, which is expected to show headline inflation printing north of 9% after the energy price cap was adjusted.

## EUR

After breaking significant support levels last week and testing multi-year lows, the single currency has stabilised at the start of this week and has even started to post a minor bounce back. This morning, the euro is dragged higher by the broad G10 move ahead of Q1's euro-area GDP release at 10:00 BST. The single currency is benefiting from a more supportive risk backdrop and vastly reduced cross-asset volatility, however, it could come under pressure this afternoon should this afternoon's US retail sales data print stronger than expected.

## USD

The greenback started yesterday's session on the front foot as markets concentrated on growth risks coming from China after poor April activity data. The haven inflows into the greenback were so dominant that markets broadly looked past the downturn in the empire state index, which printed at -11.6 in May, down from 24.6 in April

and below expectations of 15.0. While the manufacturing index was always expected to retrace April's bounce, the downturn came as a shock to many due to the collapse in orders and shipments. Outside of data, New York Fed President John Williams spoke yesterday on market volatility and liquidity. Williams stated that deteriorating liquidity conditions was just reflective of increased market volatility, which in turn was due to uncertainty over global events and shifting monetary policy. The comments by Williams are notable given his role as the head of the New York Fed, which is responsible for the Fed's open market operations. However, despite the stronger session throughout the day, the dollar moderated in the evening session, which resulted in most G10 currencies posting gains on the day against the greenback. This morning, the dollar has extended last night's move as conditions in China stabilised overnight. In Shanghai, no covid cases were recorded outside of quarantine for the third successive day. With the litmus test for reopening now passed, Covid measures in the industrial and shipping hub are likely to be gradually relaxed up until the full reopening on June 1st. Today, US retail sales for April will be the main market event at 13:30 BST. Headline retail sales are expected to increase from 0.7% to 1% MoM, with the core measure set to stay stable at 0.7%.

## CAD

The loonie strengthened two thirds of a percent against the greenback on Monday, leading the G10 pack as most major currencies strengthened against the US dollar. The Canadian currency was aided by a rise in the TSX composite index, which rose half a percent despite a decline in the S&P 500. Commodity prices also offered a fundamental tailwind, with crude oil rising 3.3%, copper up 0.8%, and silver up 2.3%. Housing starts data surprised to the upside, with 267.3k new homes starting construction in April compared to the 245.7k expected by economists and 246.2k seen in March. That's a positive sign for the Canadian economy, signalling continued consumer strength despite the rising interest-rate environment. Nevertheless, the data did not generate a meaningful reaction in the bond market, with Canadian yields falling 2bps at the 2Y tenor on the day.

## FX Elsewhere

The Aussie dollar has bounced 0.6% this morning against its US counterpart as positive growth news from China reverberates across APAC markets. Adding to the Australian dollar's strength was the release of hawkish Reserve Bank of Australia meeting minutes, which highlighted that the central bank strongly considered a larger 40bp rate hike earlier in the month. In response to the release of the minutes, regional sell-side analysts released notes stating that the RBA was likely to hike by a string of consecutive 25 basis points, while the risk of larger 40 or 50bp increments was materially larger and depended on how strong Q1's wage price index printed tomorrow morning.

### Disclaimer

This information has been prepared by Monex Europe Limited, an execution-only service provider. The material is for general information purposes only, and does not take into account your personal circumstances or objectives. Nothing in this material is, or should be considered to be, financial, investment or other advice on which reliance should be placed. No representation or warranty is given as to the accuracy or completeness of this information. No opinion given in the material constitutes a recommendation by Monex Europe Limited or the author that any particular transaction or investment strategy is suitable for any specific person. The material has not been prepared in accordance with legal

requirements designed to promote the independence of investment research, it is not subject to any prohibition on dealing ahead of the dissemination of investment research and as such is considered to be a marketing communication.