

# EUR tumbles on gas concerns, BoJ inaction pushes JPY into intervention territory

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## GBP

The pound continued to sit under pressure throughout yesterday's session as market favouritism for the US dollar resumed. In lieu of any idiosyncratic drivers, the pound remains at the mercy of broader market conditions, however, its bounce this morning from July 2020 lows against the dollar is notable as it comes without any major UK specific headlines. With GBPUSD sitting at multi-year lows, and the Bank of England still expected to hike rates, the pound could start to bounce here as it breaks out of the "poor performer" group that largely consists of low-yielding currencies.

## EUR

The euro is tanking along with other European periphery currencies following a further intensification of Europe's energy shock, labelled as 'Putinflation' by Poland's Prime Minister after both Poland and Bulgaria were cut off from Russian gas supplies. Russia took this step as Poland and Bulgaria refused to meet Russia's demand to pay in rubles as a way of circumventing sanctions. While for Poland, some inventories and other sources of energy production could help mitigate the impact, the fear around the euro is building up as markets weigh the risk of supplies being cut off to more and bigger economies in the eurozone itself. EURPLN has therefore remained stable, while both currencies have fallen substantially against the US dollar. The Financial Times reported this morning that some German and Italian companies are considering setting up ruble accounts with Gazprombank in order to secure gas. The developments leave EURUSD highly vulnerable as markets try to gauge the growth shock this brings to the euro area. For today, Germany and Spanish CPI figures for April will be eyed by market participants ahead of tomorrow's GDP and CPI figures from the euro area.

## USD

FX traders seemingly have eyes only for the dollar at the moment, with the DXY hitting levels last seen in January 2017 overnight after the Bank of Japan meeting sent the yen over a percentage point lower and sparked a renewed wave of dollar buying. With growth and financial stability considerations more acute in other G10 markets, expectations of higher US yields leaves the dollar in the driving seat for FX markets at the moment. Meanwhile, volatile bond and equity market conditions are only furthering inflows into the dollar as markets seek

refuge from the tentative growth and high inflation environment. Today, markets will get a brief look at how strong growth conditions are in the US with the advanced first quarter GDP reading at 13:30 BST. The economy is expected to expand by 1% quarter-on-quarter in annualised terms.

## CAD

The loonie traded choppily on Wednesday, closing the day virtually unchanged from Tuesday's closing price despite touching the highest USDCAD spot price in about six weeks. Most of the influence from other markets appears to have been fairly muted, as the difference in yields between the US and Canada only shifted slightly (1-2 bps) in favour of the US. Oil prices, meanwhile, closed the day 0.3% stronger despite reaching an intraday low that was 2% weaker than the previous day's close. Overall, major macro catalysts were largely absent yesterday. On today's agenda for USDCAD, we have GDP data from the US and payroll employment from Canada, both at 13:30 BST.

## FX Elsewhere

After repeated rounds of verbal intervention, USDJPY finally broke through key psychological levels this morning after the Bank of Japan committed to keeping its yield curve control policy firm at +/- 0.25%. By refraining from widening the band in which 10-year yields can trade within, the Bank has made its own job harder as widening yield differentials with the US continue to put downward pressure on the yen. In doing so, JPY depreciation further fuels inflation conditions in Japan, which on a headline basis suggests that the BoJ's ultra-loose monetary policy stance is outdated. However, much of the inflation surge is due to external factors, with the BoJ forecasting core inflation to sit around 0.9% this fiscal year. After the 1.3% move higher in USDJPY overnight, the yen now firmly sits in intervention territory. Any signs that the BoJ will be absent in the market given renewed pressure on the yen will highlight how cheap talk is. If the strong upwards trend channel re-emerges in USDJPY, a lack of intervention at current levels will only make the Bank of Japan's job more expensive at a later date.

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