

A strong dollar, the weak link for the ECB?

The euro lost more ground to the dollar this week, falling to a near 20-year low. The fall will boost the cost of energy imports to Euro area economies, intensifying risks to the zone's inflationary and economic prospects and creating an extra policy headache for the ECB.

The euro's decline against the dollar is mainly a strong-dollar story. The greenback has made big gains against all currencies since the start of the year: up 15% against the euro and the British pound, and 22% against the yen. A number of factors underlie the dollar's strength. First, since the turn of the year, the Federal Reserve has been announcing a string of interest rate rises to tackle the particularly strong inflationary surge in the United States. These rate rises have tempted yield-hungry investors to buy dollar-denominated US assets. A temptation that only intensified with the outbreak of war in Ukraine. This reinforced investors' preference for dollar investments in a new risk environment that put Europe in the front line. Finally, the rising price of main commodities traditionally traded in dollars automatically pushed up the US currency. So, while the euro has fallen against the dollar, it is mainly due to strong demand for dollars. Looking at a broader basket of currencies, the euro has moved little recently (Chart 1).

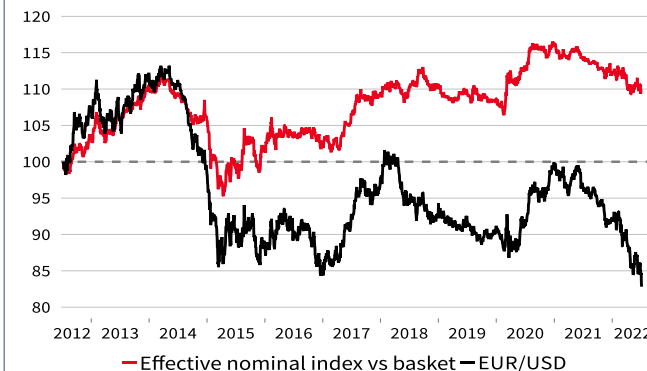
The latest weakening versus the dollar poses complications for ECB policy. The latest slide has further boosted the cost of dollar-denominated energy, adding to the inflationary pressures in the pipeline, and most importantly, further deteriorating the economic outlook. The sharp jump in energy prices over the last few months has already taken its toll on Germany's balance of trade, which turned negative for the first time since 1991 (Chart 2). And the recent surge in tensions over Russian gas supplies is now raising serious fears of recession in the Euro area. Against this backdrop, the dollar's gains against the euro add to the ECB's policy headaches: if it hikes interest rates sharply, it risks plunging the continent into recession, but if it fails to raise rates sufficiently the euro's slide could continue, automatically increasing the risk of inflation locking in for the long term.



The euro depreciates strongly against the dollar, but not against other major currencies

Exchange rate of the euro

Rebase : 100 = -5 years

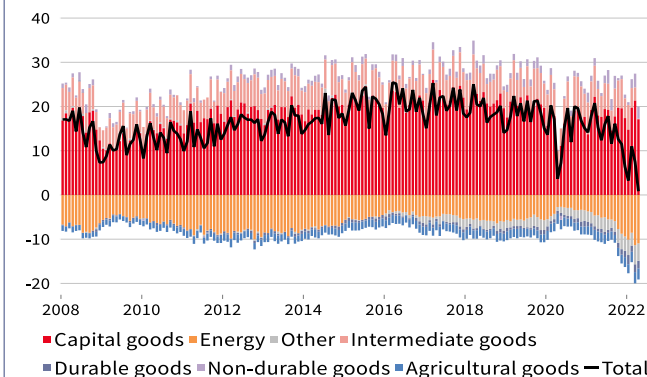


Sources: SGPB, Macrobond, BIS, Macrobond 04/07/2022

Energy prices weigh on the German trade balance, falls into negative territory

Germany: trade balance of goods

in billions, €



Sources: SGPB, Macrobond, DESTATIS 04/2022

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (08/07/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



Disavowed by his party and government, British Prime Minister Boris Johnson announced his resignation on Thursday. This change of head of state in the United Kingdom, which could last several months, comes at a time when the British economy is struggling with even higher inflation than in other developed economies and a severe squeeze on household disposable income.



Oil prices fell significantly this week. From Tuesday to Wednesday, the US barrel price (WTI) lost 12.7%, one of its biggest one-day declines. Brent's barrel even dropped below the symbolic \$100 threshold. Fears of recession and concern about a slower-than-expected recovery in China are the main reasons for this decline.

Figures of the week



- S&P Global composite PMI (June)
- Retail sales (in year on year variation, May)

	Actual	Consensus	Previous
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52	↓	51,9	54,8
0,2%	↓	5,4%	4%



- Caixin services PMI (June)

54,5	↑	47,3	41,4
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- ISM services PMI (June)
- Non-farm payrolls (June)

55,3	↓	54,5	55,9
-		268k	390k



- S&P Global composite PMI (June)

53,7	↑	53,1	53,1
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Sources: Bloomberg, on July 8th, 2022.

The week ahead

Wednesday



Industrial production (May)



Inflation (June)



Industrial production (May)



Inflation (June)

Friday



Retail sales (June)



Industrial production (June)



Retail sales (June)



University of Michigan Consumer Sentiment Index (July)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,57
USD SOFR O/N	0,30	1,51	0,30	0,05	0,05
JPY TONAR O/N	-0,01	-0,03	-0,01	-0,02	-0,03
GBP SONIA O/N	1,19	1,19	0,69	0,19	0,05
CHF O/N	-0,15	-0,16	-0,71	-0,71	-0,73

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,69	2,06	1,19	0,20	-0,04
10Y Bund	1,23	1,60	0,65	-0,21	-0,28
10Y BTP	3,05	3,38	2,34	1,17	0,73
10Y JGB	0,21	0,22	0,23	0,07	0,02
10Y Bonos	2,29	2,58	1,66	0,56	0,39
10Y Swiss	0,78	1,30	0,66	-0,13	-0,29
10Y Gilt	2,07	2,36	1,75	1,02	0,69
10Y USNote	2,93	3,10	2,61	1,52	1,33

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,09	2,47	1,23	0,33	0,14
EUR Corporate Baa	3,35	3,66	1,86	0,66	0,40
GBP Corporate Baa	3,23	3,42	2,47	1,52	1,07
USD Corporate Aaa	3,79	3,90	3,23	2,13	1,91
USD Corporate Baa	5,03	5,11	4,08	2,60	2,24
USD EM aggregate	7,16	7,16	5,73	4,33	3,86

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	99,69	-13,8%	-1,8%	26,1%	35,9%
Or, USD/oz	1 739	-4,3%	-9,7%	-4,9%	-3,6%
Copper, USD/metric ton	7 539	-10,8%	-27,3%	-22,1%	-20,5%
Platinum, USD/onoz	863	-6,7%	-10,8%	-10,8%	-21,0%
Palladium, USD/onoz	1 948	2,6%	-13,5%	-1,5%	-31,2%
Silver, USD/onoz	19,22	-8,4%	-20,8%	-16,7%	-27,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,02	-3,2%	-6,8%	-10,1%	-14,0%
EUR/CHF	0,99	-0,9%	-2,9%	-4,5%	-9,4%
USD/GBP	0,84	1,8%	9,9%	13,7%	15,7%
USD/JPY	135,68	-0,8%	9,6%	17,8%	22,6%
USD/BRL	5,43	3,9%	15,8%	-2,5%	3,3%
USD/CNY	6,71	0,1%	5,5%	5,6%	3,6%
USD/RUB	62,92	18,0%	-24,3%	-16,1%	-15,8%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 005	-1,9%	-12,1%	-13,4%	-10,1%
Eurostoxx 50	3 422	-2,6%	-10,5%	-20,4%	-16,1%
Dax 40	12 595	-3,1%	-11,0%	-20,7%	-19,7%
CAC 40	5 912	-2,0%	-9,0%	-17,3%	-9,4%
FTSE 100	7 108	-2,8%	-6,3%	-3,7%	-0,6%
SMI	10 841	0,3%	-12,0%	-15,8%	-10,3%
SP500	3 845	0,7%	-14,2%	-19,3%	-11,8%
TOPIX	1 856	-2,0%	-3,5%	-6,8%	-4,2%
iBovespa	98 719	-0,9%	-16,5%	-5,8%	-22,3%
Hang Seng	21 587	-1,9%	-2,2%	-7,7%	-22,8%
Sensex 30	53 751	1,4%	-9,8%	-7,7%	1,3%
MOEX	-	-	-	-	-
CSI 300	4 424	0,1%	3,8%	-10,5%	-13,9%

Source: Macrobond, on July 8th, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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