



Review of recent FX developments & outlook



ECB FX Contact Group - Frankfurt, 23/03/2023

Hinrich W. Paul – Global Head of Financial Markets

Inflation: Market-based l/t inflation expectations moderate, with high uncertainty looking ahead



US: swap-based inflation expectations
(Percent annualized)



Eurozone: swap-based inflation expectations
(Percent annualized)

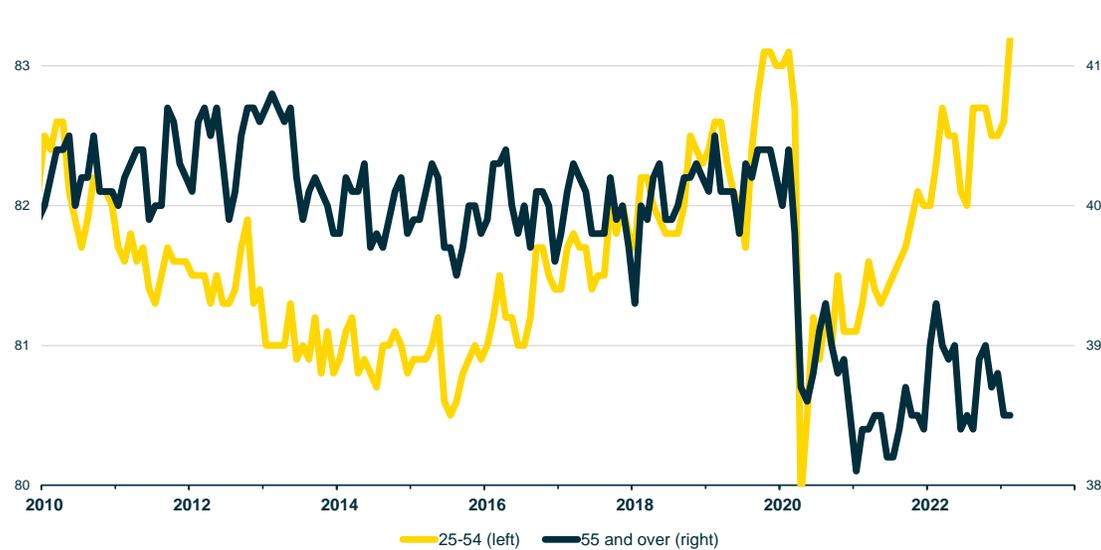


Sources: Bloomberg, Commerzbank Research, as of 17th March

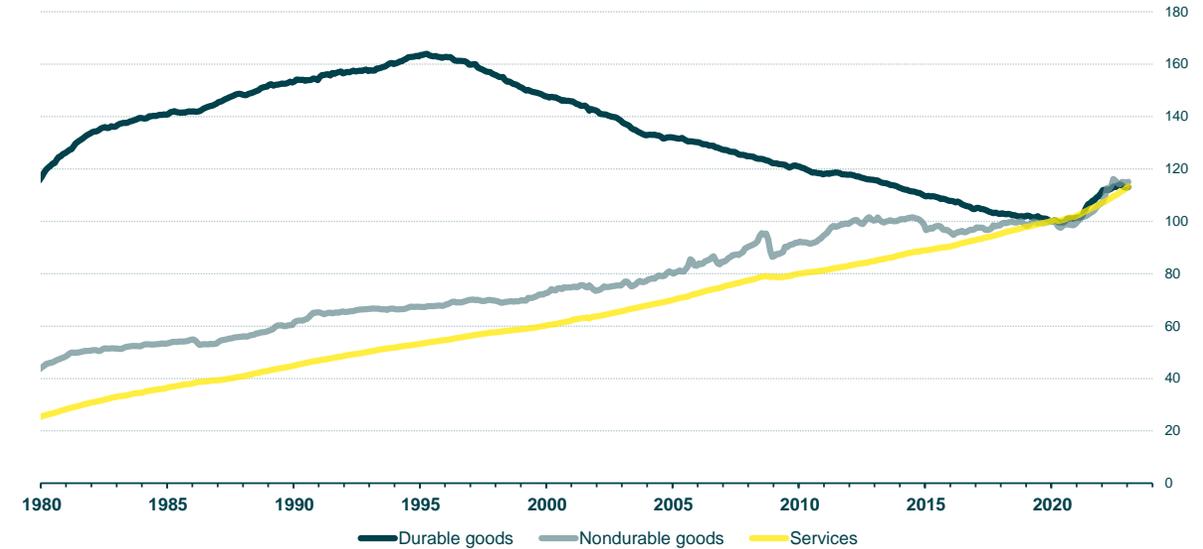
Inflation: The boomers have left the labour market & disinflation from globalization is easing, e.g. in the US



US: labor force participation rate
(Percent, nsa.)



US: PCE deflators per broad categories
(Indices, end-2019 = 100)

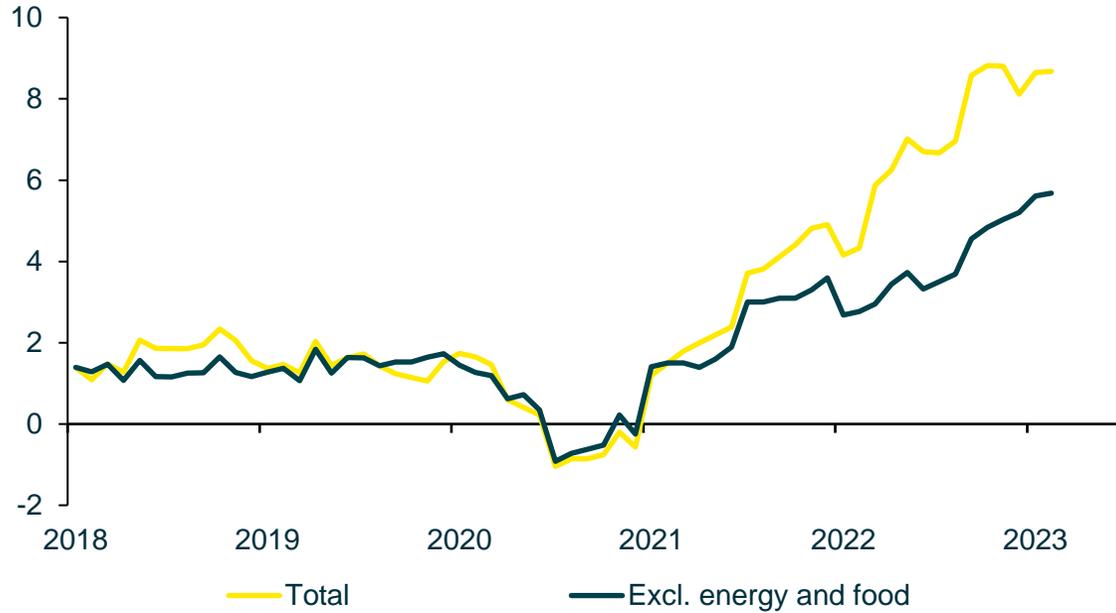


Germany: Inflation stubbornly high



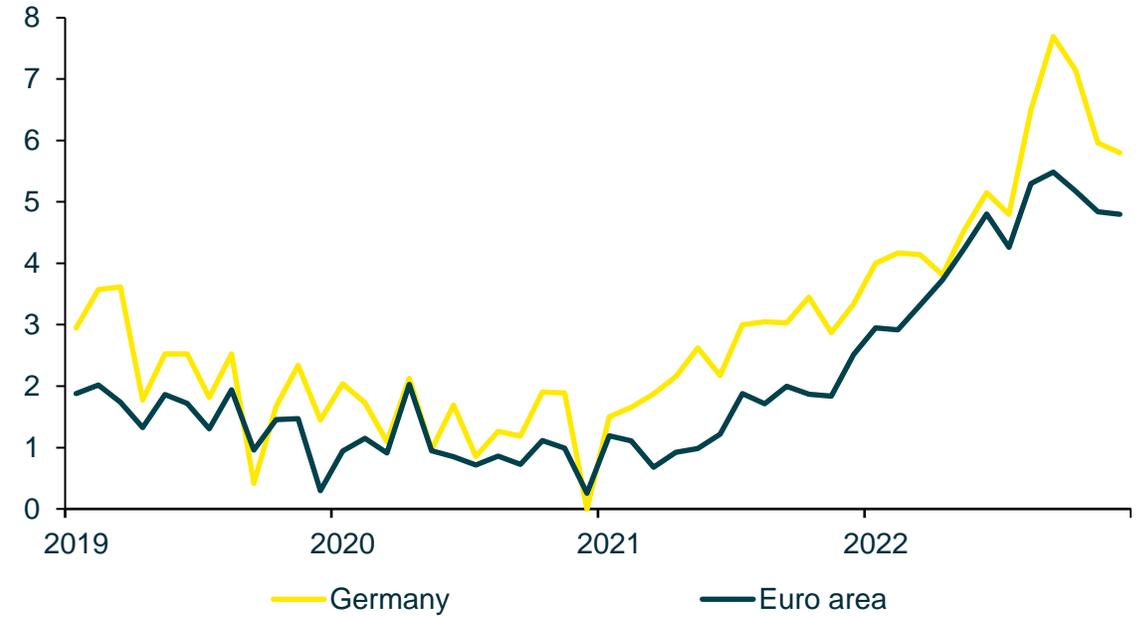
CPI

(change on year in percent)



Indeed wage tracker

(change on year in percent)

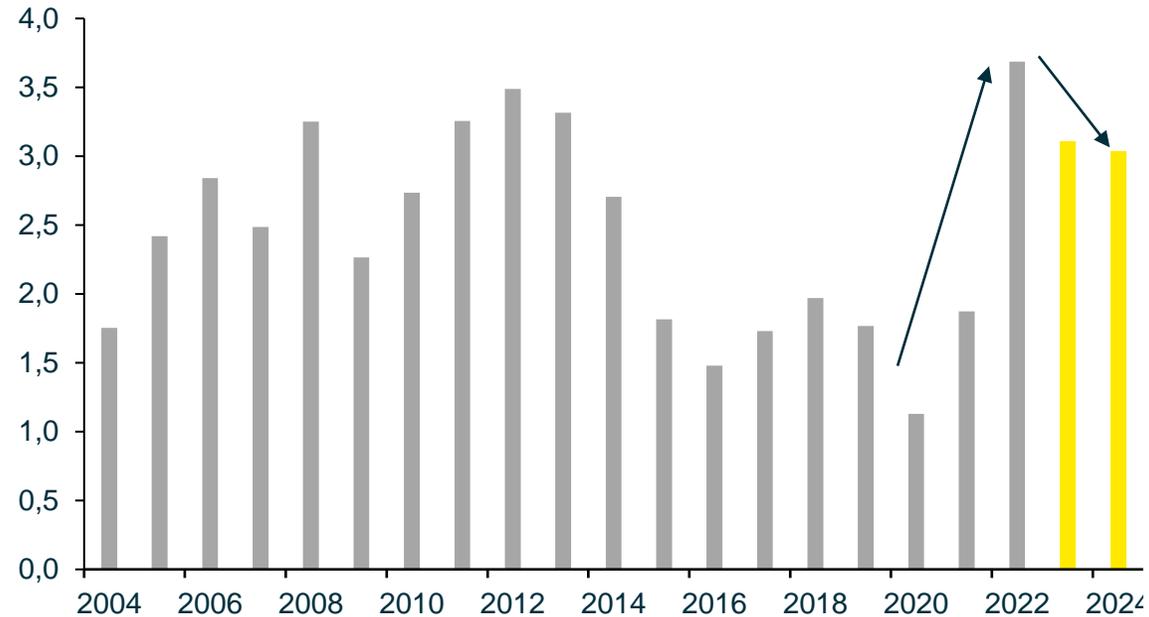


Sources: destatis, Indeed, Commerzbank Research

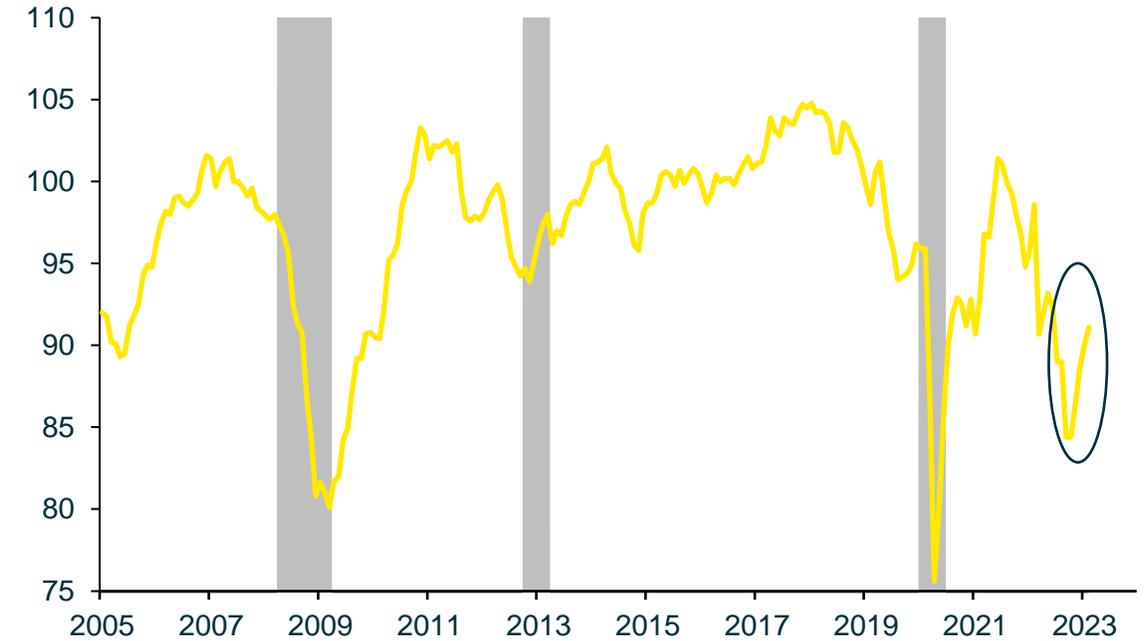
Germany: Relief from energy price shock and improving Ifo index



Expenditure on imports of natural gas, crude oil and hard coal to Germany
(percentage of gross domestic product, from 2023 Commerzbank forecast)



Ifo business climate
(seasonal adjusted monthly figures, grey areas mark recession periods)

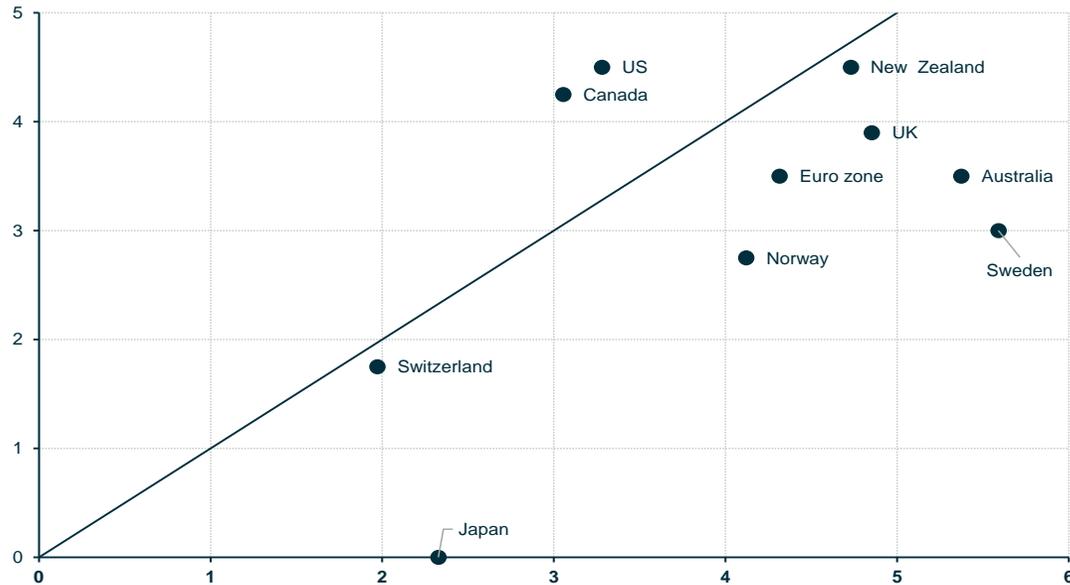


Sources: Ifo, BdEW, Bloomberg, BP, Federal ministry of economics, destatis, IHS, Commerzbank Research

ECB: Among G10, ECB has been medium aggressive so far

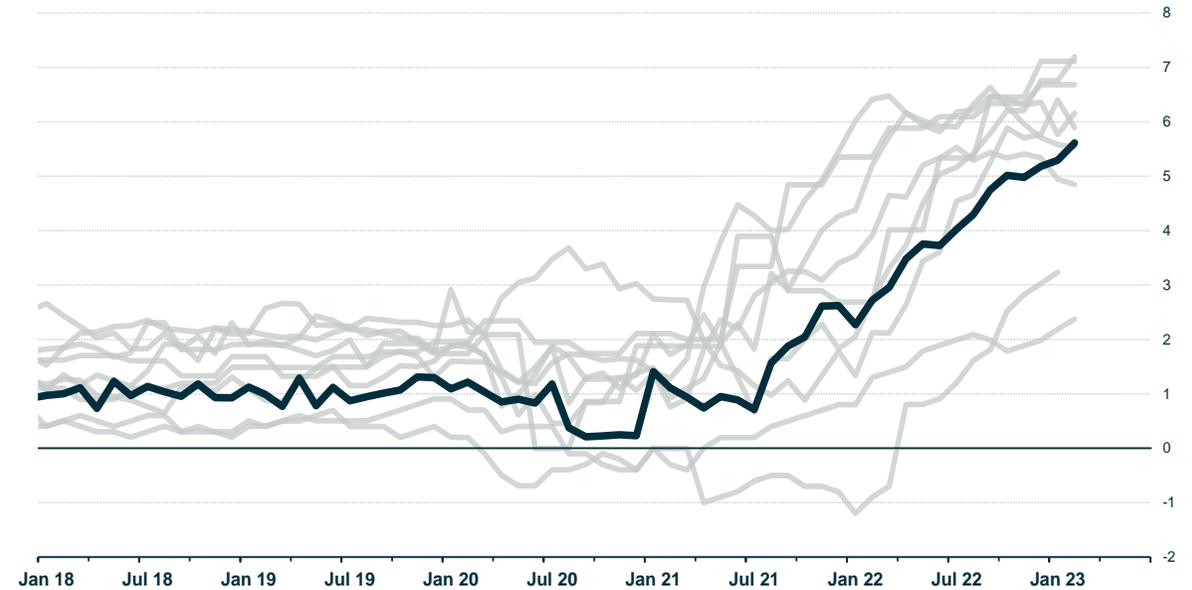


Change in core inflation and in key policy rates vs. early corona period
(Percentage points)



Horizontal axis: Change in core inflation since end-2019;
vertical axis: change in key policy rate since end-2020

Eurozone and G10 core inflation
(Percent year-on-year)

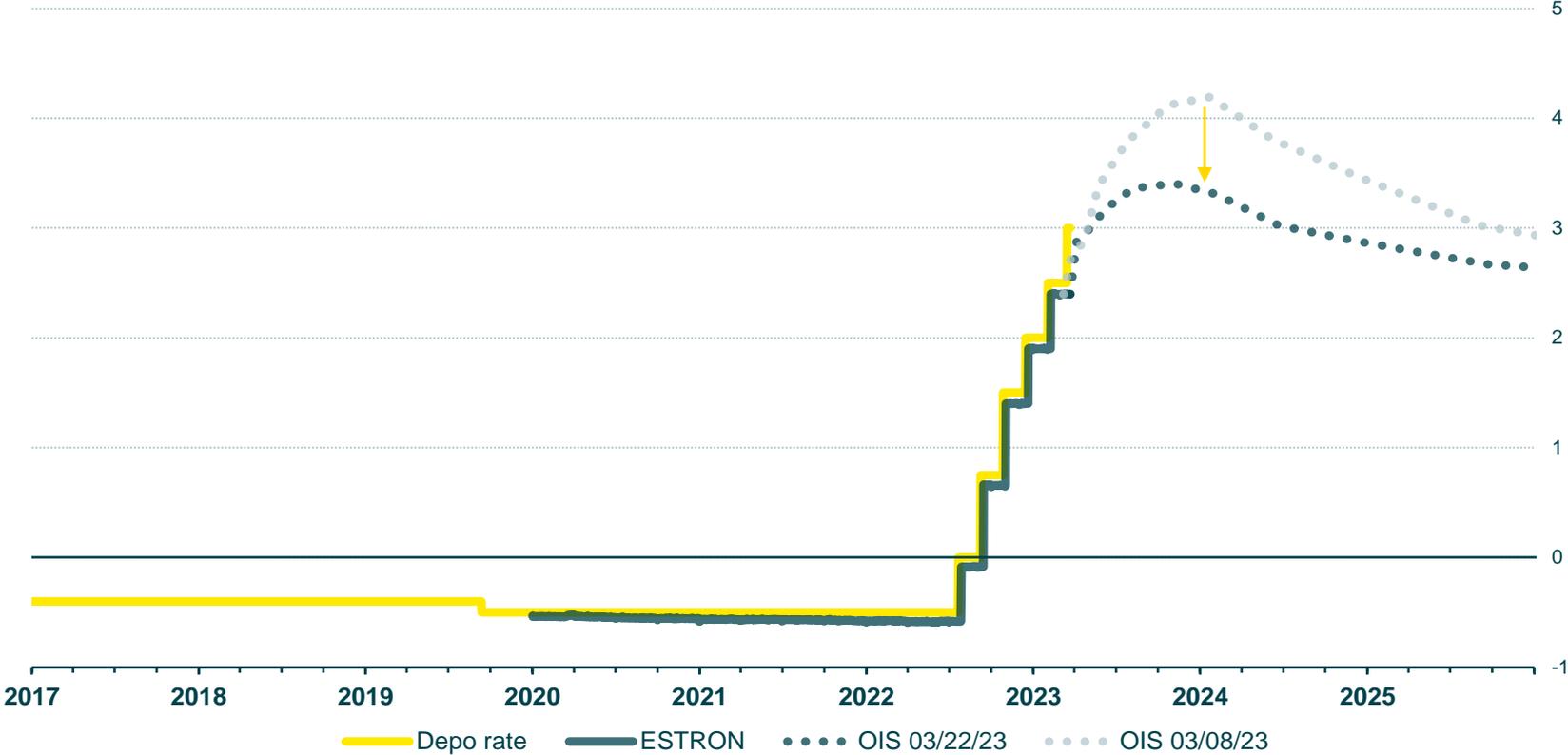


Sources: Eurostat, BLS, Ministry of Internal Affairs and Communication, ONS, Bundesamt für Statistik, STCA, Australian Bureau of Statistics, Statistics New Zealand, Statistics Sweden, Statistics Norway, ECB, Fed, BoJ, BoE, SNB, BoC, RBA, RBNZ, Riksbank, Norges Bank, Bloomberg, Commerzbank Research

ECB: Continuation of the rate-hiking cycle?



ECB deposit rate, ESTRON and OIS-based market expectations
(Percent)

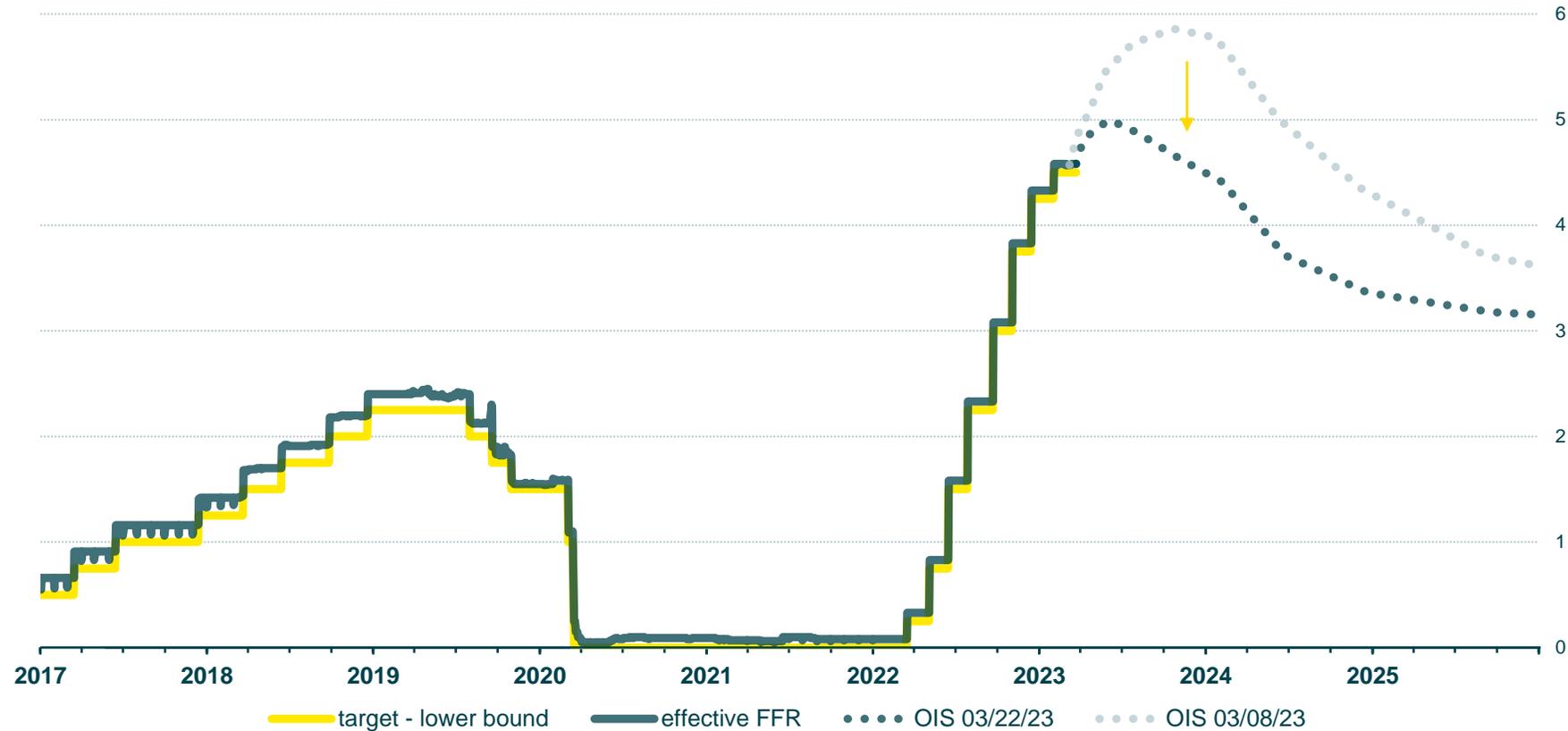


Sources: ECB, Bloomberg, Commerzbank Research

USD: Banking system stress has led to downward revision of Fed expectations (ahead of Fed's meeting)



Effective Fed funds rate, target (lower bound) and OIS-based market expectations
(Percent)

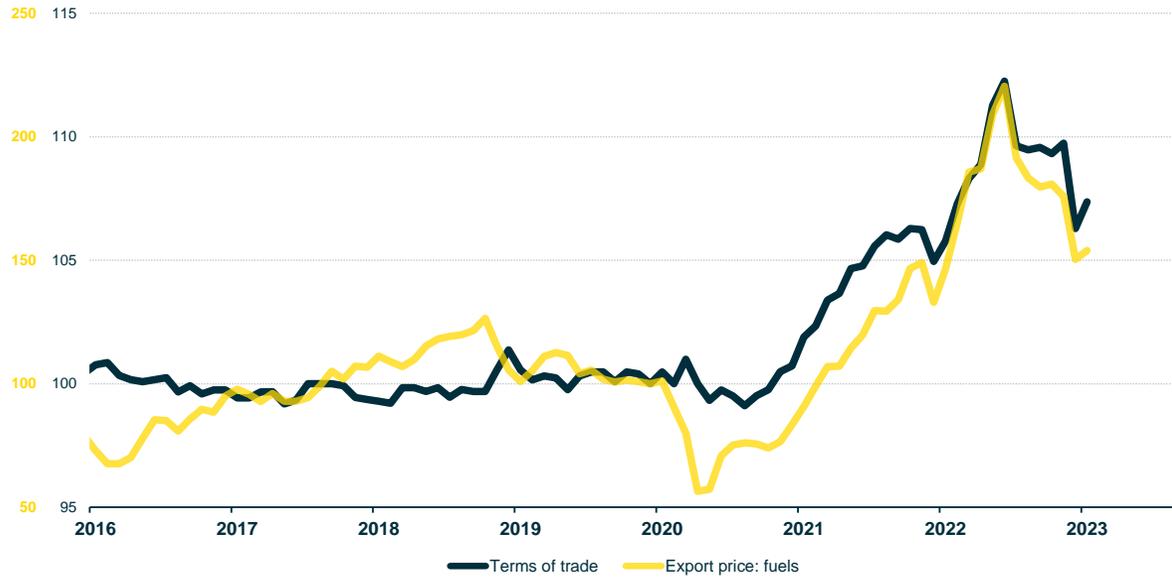


Source: Federal Reserve, Bloomberg, Commerzbank Research

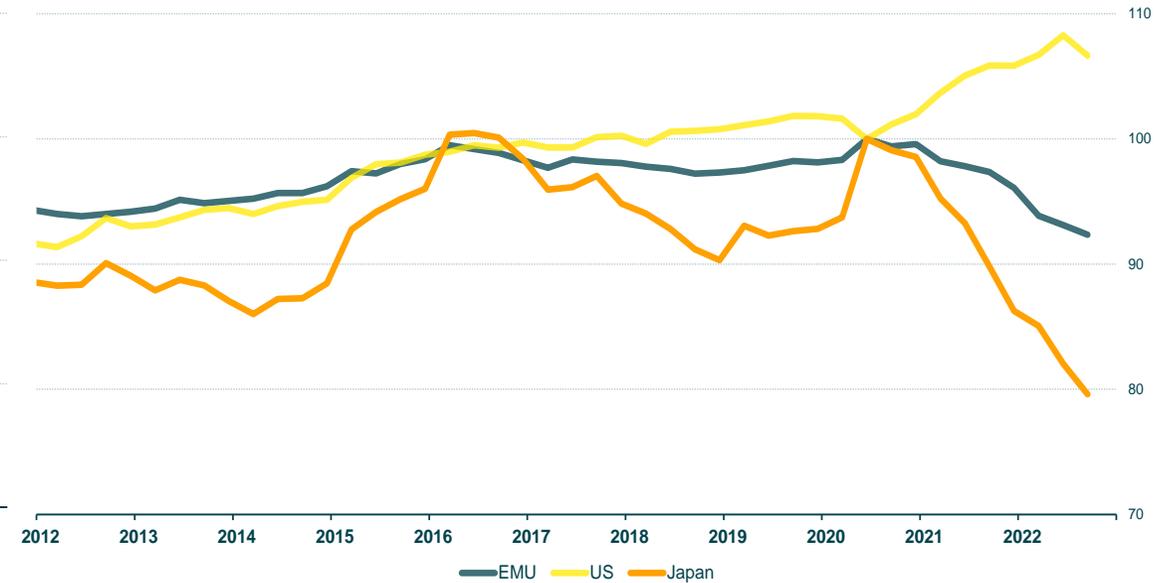
USD: USD profited from energy price shock vs currencies of energy importers



US terms of trade
(Indices, end-2019 = 100)



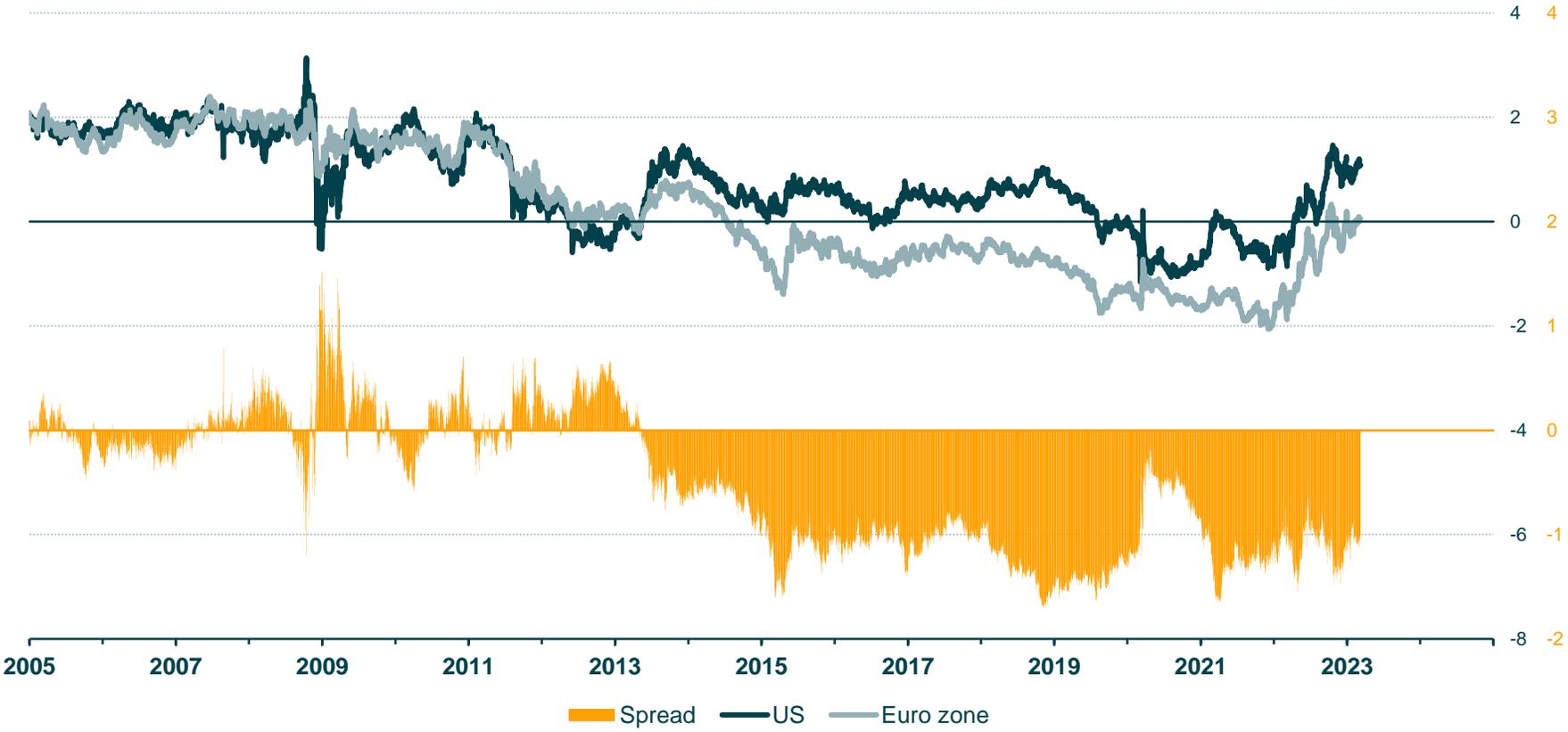
G3 terms of trade
(Indices, end-2019 = 100)



USD: Lack of long-term RIP in EUR-USD since 2014

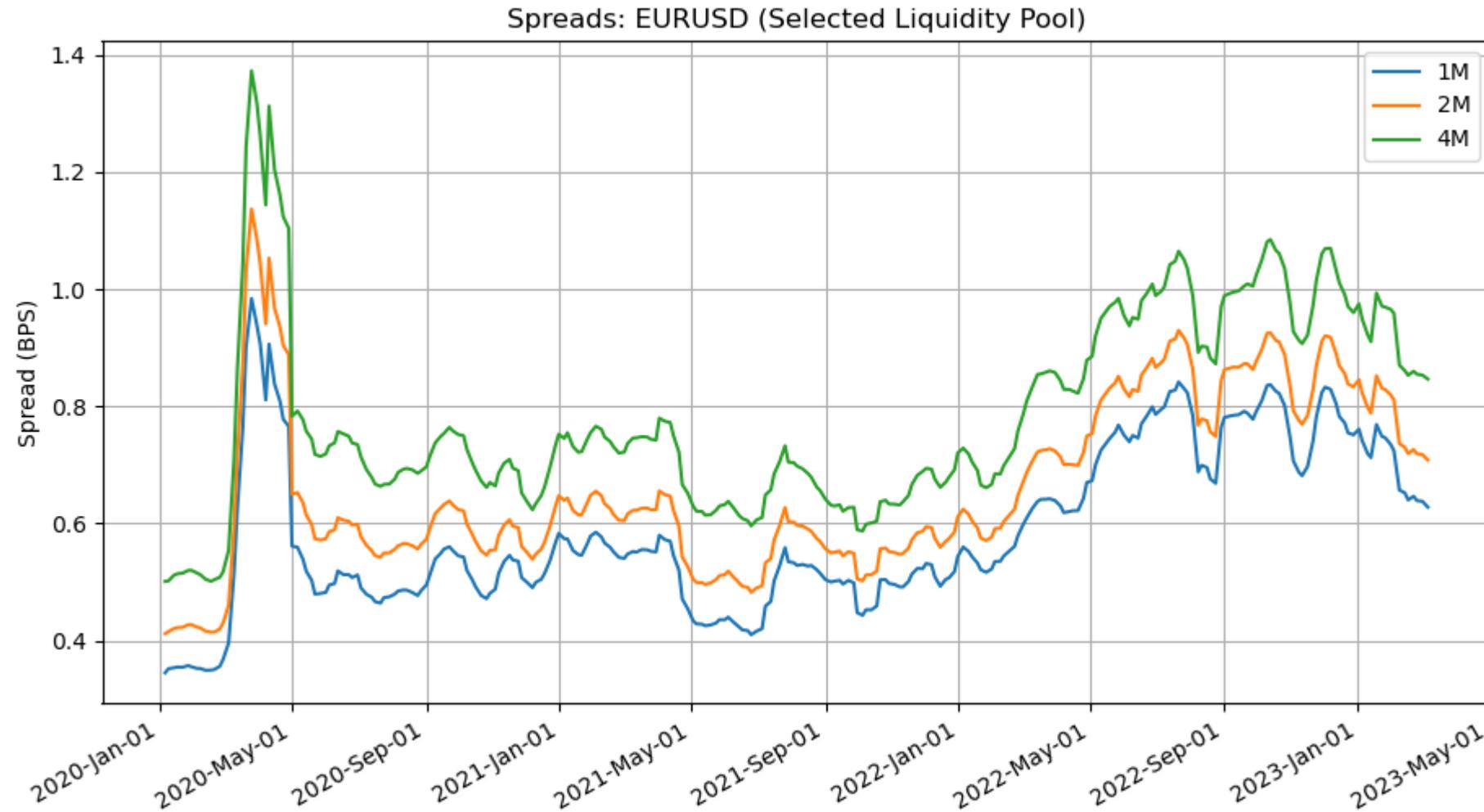


T-notes and Bunds: real 5Yx5Y yields
(Percent, spread in percentage points)

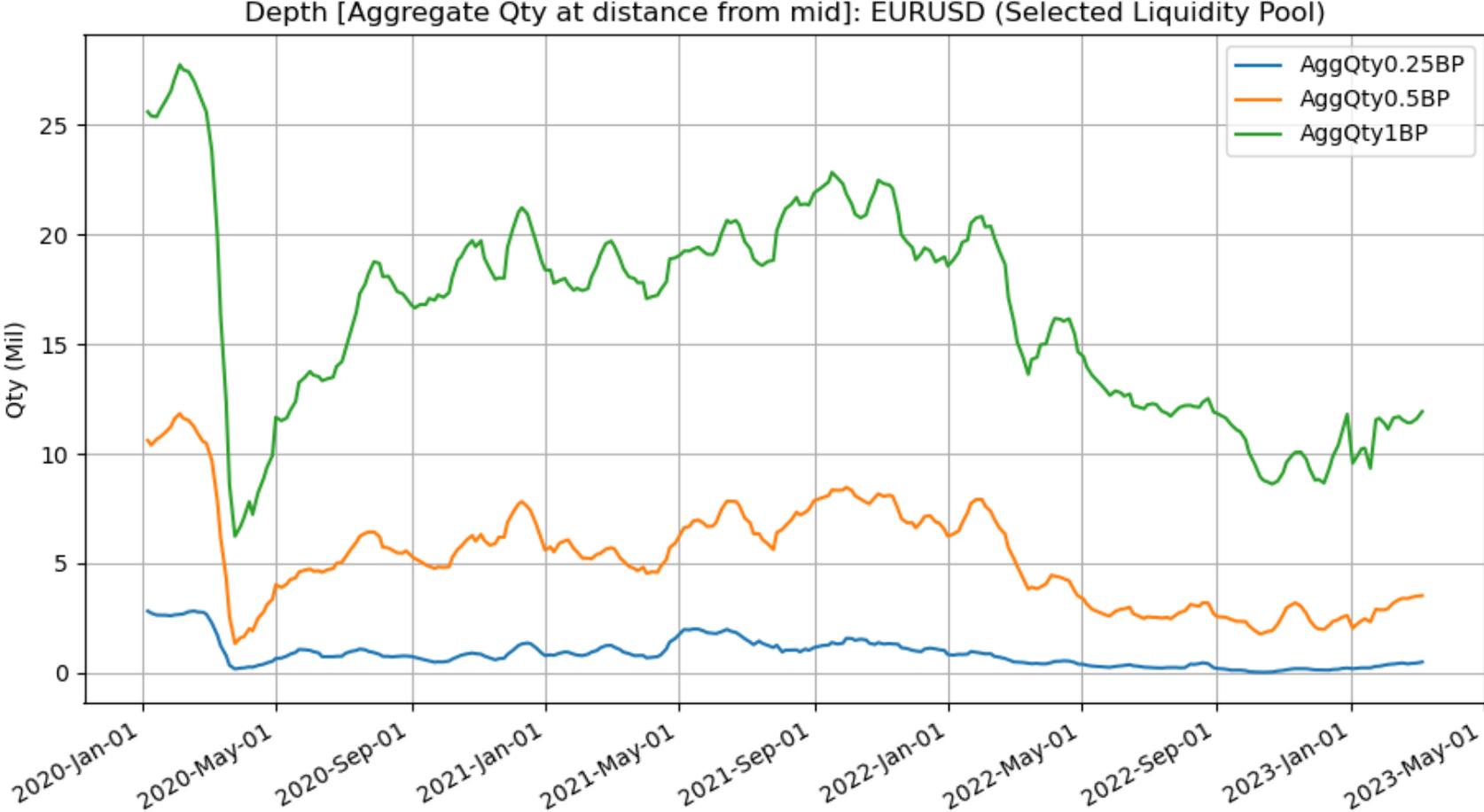


Sources: Bloomberg, Commerzbank Research

Liquidity: Spreads stabilised at the end of 2022, beginning 2023



Liquidity: Lower liquidity 2022 compared to 2021

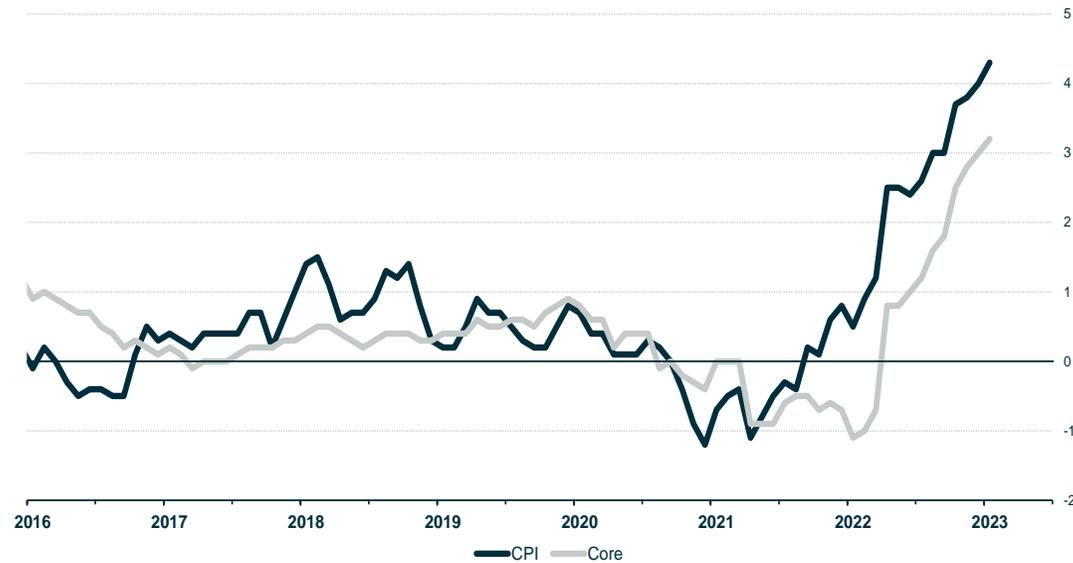


Source: Commerzbank

Japan: Inflation continues to accelerate



CPI
(Percent year-on-year)



10Y JGBs: yield and BoJ target range
(Percent)



Source: Ministry of Communication and Internal Affairs, Bloomberg

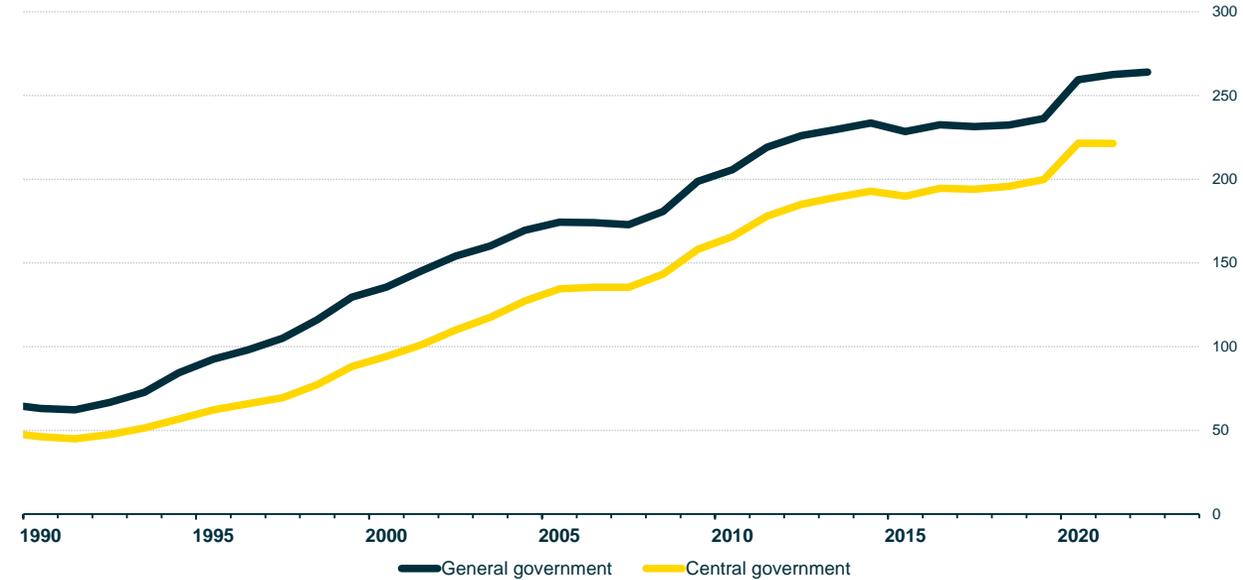
Japan: Is Japan's debt "sustainable"?



Japan: primary budget balance
(Percent of GDP)



Japan: government debt
(Percent of GDP)



Sources: IMF, Bloomberg, Commerzbank Research

Summary and open questions



- Core inflation expected to be sticky, we therefore expect more rate hikes than currently priced in.
- Main downside risks for Europe is conflict in Ukraine, related energy price risk and potential fall-out of SVB & Credit Suisse crisis.
- German economic data indicate feeble recovery. Inflation and wage pressure stubbornly high. We expect rate hikes to burden growth.
- Spreads did significantly widen in the course of 2022, compared to 2021.
- Inflation pressure mounting on BoJ, high level of uncertainty with regard to potential change of monetary stance.

Topics for group discussion

- **USD, FOMC & US banking system**
- **EUR, CHF/CSFB & European situation**
- **JPY, Japan, China & Asia**
- **FX spreads**



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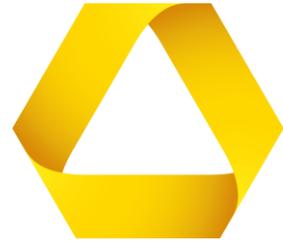
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