

Monex places third in Bloomberg's Q1 G10 rankings, maintains strong Reuters rankings

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The Russian invasion of Ukraine towards the end of February invoked increased FX volatility over the course of March and a larger than usual forecast error. Swiftly adjusting our forecasts towards the end of February to account for the terms-of-trade and inflation shock that was brought about by the war in March, along with the rise in eurozone risk premia, resulted in a strong performance for our Q1 and March forecasts across both Bloomberg and Reuters rankings.

Over the course of Q1, Monex Europe ranked **3rd out of 47** contributors in the G10 category and **6th out of 46** contributors in the 13 majors category in Bloomberg. Our Q1 USDCHF and AUDUSD are worth a specific mention after ranking **1st** and **3rd** respectively. Within the Reuters rankings, which are produced monthly, Monex Europe's G10 and EM forecasts continued to receive top 10 rankings across the G10 and EM space. The most notable forecast rankings came in European currencies, which were most impacted due to regional risk and growth concerns, and currencies that exhibited a positive terms-of-trade shock (AUD, CAD, NZD).

“ Together, the two sets of rankings compound the momentum of our forecasting accuracy following the presentation of most accurate forecaster for 2021 in the majors category by Reuters via the Starline Awards . ”

Bloomberg

3rd / 47

in the G10

6th / 46

in the 13 Majors

Reuters

G10

The impact of Russia's invasion of Ukraine was broadly two-fold within G10 FX markets. For European currencies, risk premia in assets increased along with stagflation concerns. This led to sustained weakness in EUR and SEK for a large portion of March until optimism around peace talks resulted in a sizeable retracement. Meanwhile, the UK economy's more limited dependence on Russian energy led to the pound outperforming the euro. But, growth concerns over the imminent cost of living crisis in the UK resulted in sterling still taking on losses against the dollar. Outside of Europe, currencies largely reacted to their terms-of-trade shocks and their respective yield curves, which priced in the likely monetary policy reactions to the commodity-driven inflation shock.

“ While this resulted in AUD and CAD driving gains against the dollar over the entirety of March, rising US yields placed upwards pressure on USDJPY and sent the currency pair to levels not seen since 2015. ”

In doing so, Japan's Ministry of Finance outlined that it was monitoring currency market developments, suggesting intervention from the Bank of Japan may have been likely around the 125 handle. While we estimated the divergence in how the dollar would trade within the G10 space over the course of March, and thus yielded strong near-term forecast rankings, the magnitude of our estimates still remained subject to a large margin of error, owing to the fluidity of geopolitical events.

Rankings

	1M	3M	6M	12M
EURUSD	8 th			
GBPUSD		19 th		
USDJPY	6 th	10 th		
EURGBP	17 th	18 th		
USDCAD	6 th			
AUDUSD	2 nd	11 th	17 th	
NZDUSD	7 th			
USDCHF	10 th	7 th	1 st	2 nd
EURCHF	2 nd			
USDSEK	8 th			
EURSEK	3 rd	6 th		

Emerging Markets

Within the EM space, our forecasts were predominantly based on geographical proximity to the war, the level of economic interdependence with Russia, and the sensitivity of respective central banks to the inflation shock. Generally speaking, our forecasts anticipated a limited impact for LATAM currencies, the formation of a bullish channel over the medium-term for the South African rand as the inflation environment would trigger the SARB into a more definitive hiking cycle, and sustained depreciation pressure for RUB and TRY.

“ For the Chinese yuan, the highly integrated trade links between Russia and China led us to believe that demand for CNY would only increase from Russia as it was isolated from global trade. ”

However, our expectation of marginal CNY appreciation proved incorrect as Beijing was soon thrust into the spotlight of sanctions as it continued to trade with Moscow, leading to USDCNY jumping from 6.32 to 6.35. Given the high sensitivity of EM currencies to overall market risk conditions, which proved volatile over the course of the month, our smaller forecast error than consensus resulted in top-10 rankings in the near-term despite divergences between our spot forecasts and month-end levels.

Rankings

	1M	3M	6M	12M
USDCNY	9 th	16 th		10 th
USDZAR	4 th	6 th		
USDRUB	7 th			
EURRUB				2 nd
USDTRY	8 th	4 th		
USDMXN	4 th			

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