

## Insights

# 2023 Currency outlook

Inflation dominated the FX markets in 2022, as any stabilization of supply chain disruptions from COVID was swiftly overwhelmed by the Russia-Ukraine crisis, causing energy resource bottlenecks across the world. Building upon its strong legs from 2021, US dollar outperformed all of its G10 counterparts as the hawkish Fed led central bank policy globally. With policy divergence amid rising interest rates, FX volatility rebounded higher through Q3, at which point both US dollar and FX volatility reversed as the market's appetite for risk re-emerged in Q4.

## Inflation contagion

The inflation debate, structural vs. transitory, was emphatically answered, as persistently high CPI numbers spread globally. The lingering effects of the pandemic – disrupted supply chains around the world leading to shortages, backlogs, and delays – ushered in 2022, as the world grappled with the Omicron variant. Any possible lull in rising inflation was unceremoniously dashed when Russia invaded Ukraine, kickstarting a surge in energy prices, as the region's dependency on the Russian gas supply was exposed. Developed market inflation reached multi-decade highs (chart 1) as soaring prices became a global phenomenon.

**CHART 1: DEVELOPED MARKET INFLATION (2000 - 2022)**



Source: Bloomberg, OECD. Past performance is not necessarily indicative of future results. Actual results may materially differ.

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**Inflation contagion**  
The inflation debate, structured as, transitory vs. structurally persistent, is particularly high on markets' agendas globally. The lagged effects of the pandemic – disrupted supply chains around the world leading to shortages, bottlenecks and delays – entered in 2022 as the world grappled with the Chinese variant. This provided fuel to rising inflation, not unreasonably defined when Russia invaded Ukraine, kickstarting a surge in energy prices, as the region's dependence on the Russian gas supply was exposed. Continued global inflation worried market investors, pushing the Fed's meeting prices towards a global phenomenon.

**the debate between structural and transitory inflation has not fully abated with the Fed betting on structural inflation requiring higher terminal rates than the market is pricing in.**

**Chart 1: DEVELOPED-MARKET INFLATION (2000-2022)**

Source: Bloomberg, FRED. For performance on Mesirow's Global Inflation Index, please see the Mesirow Global Inflation Index.

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