Post-Pandemic Drivers in Currency Movement: Swinging Impacts of Sovereign Risks and Oil Prices

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This paper tries to investigate what are driving factors of FX rates, focusing roles of sovereign credit risks and energy prices, particularly in the post-pandemic period. Higher interest rates and energy prices could be threat for fiscal and current balance deficit sustainability in the post-pandemic period for a country having large government debt or big current account deficit or net energy imports. Higher concerns on the sustainability tends to depreciate the currency of the country. This paper finds the yen's safe-haven status weakened and the European currencies became more sensitive for debt risks and fragile for uncertainty in the post pandemic period. Moreover, We saw the BOJ's introduction in the yield curve control increase the yen's sensitivity from sovereign risks, even if the YCC could have capped a surge in the CDS premiums. Moreover, the impacts of oil price on the FX moves appear to depend on whether its demand shock or not. Policy implication from the results the fiscal discipline is important not only for sovereign risk premiums but the FX rate movement. The BOJ could control some of sovereign risks in short-term but in long-run, it could dampen sovereign debt sustainability with rapid weakness of home currency.