



FX Outlook

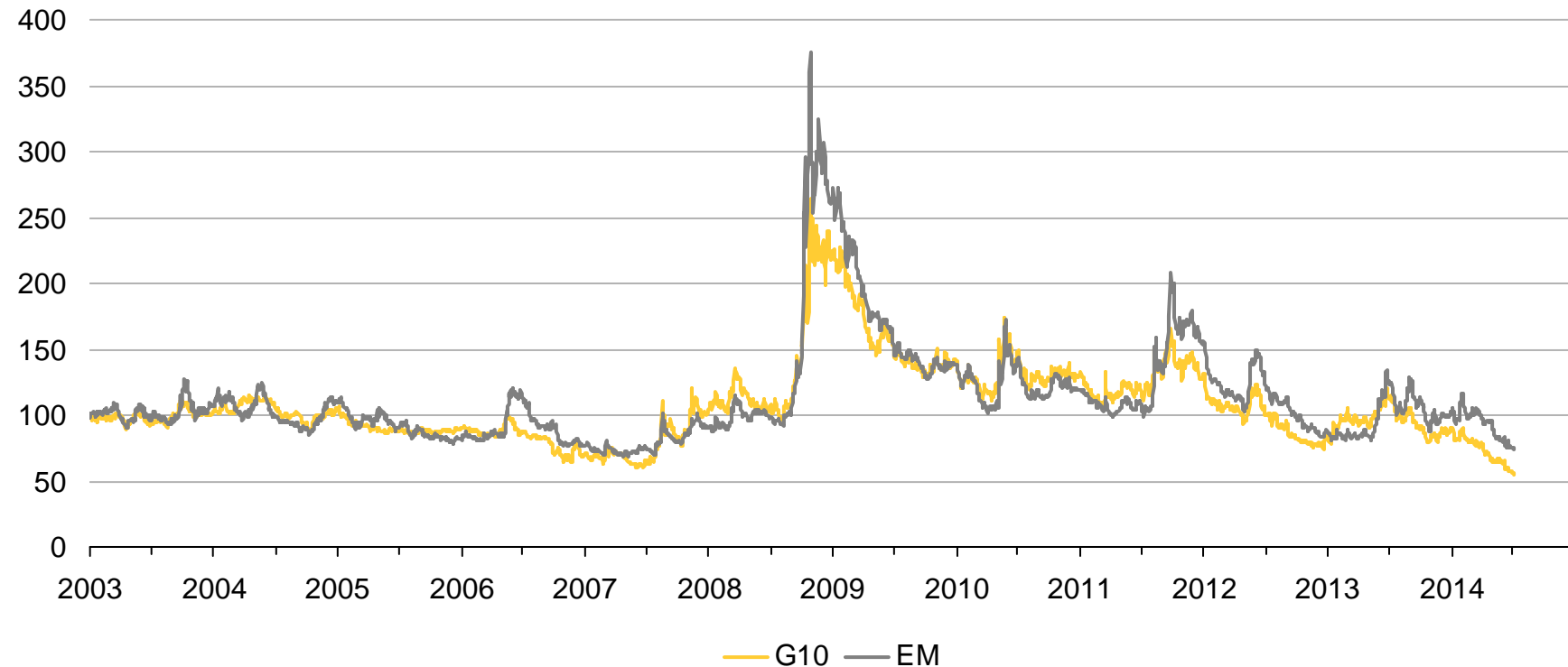
Presentation for ECB FXCG

Exchange rate volatility around the 2006/07 lows

Similar picture in DM and EM vols

Commerzbank FX Vol Index

3M implied vols of the 20 most actively traded G10 currency pairs and of the 19 most actively traded EM currency pairs; weighting according to BIS Triennial Survey; percent annualized



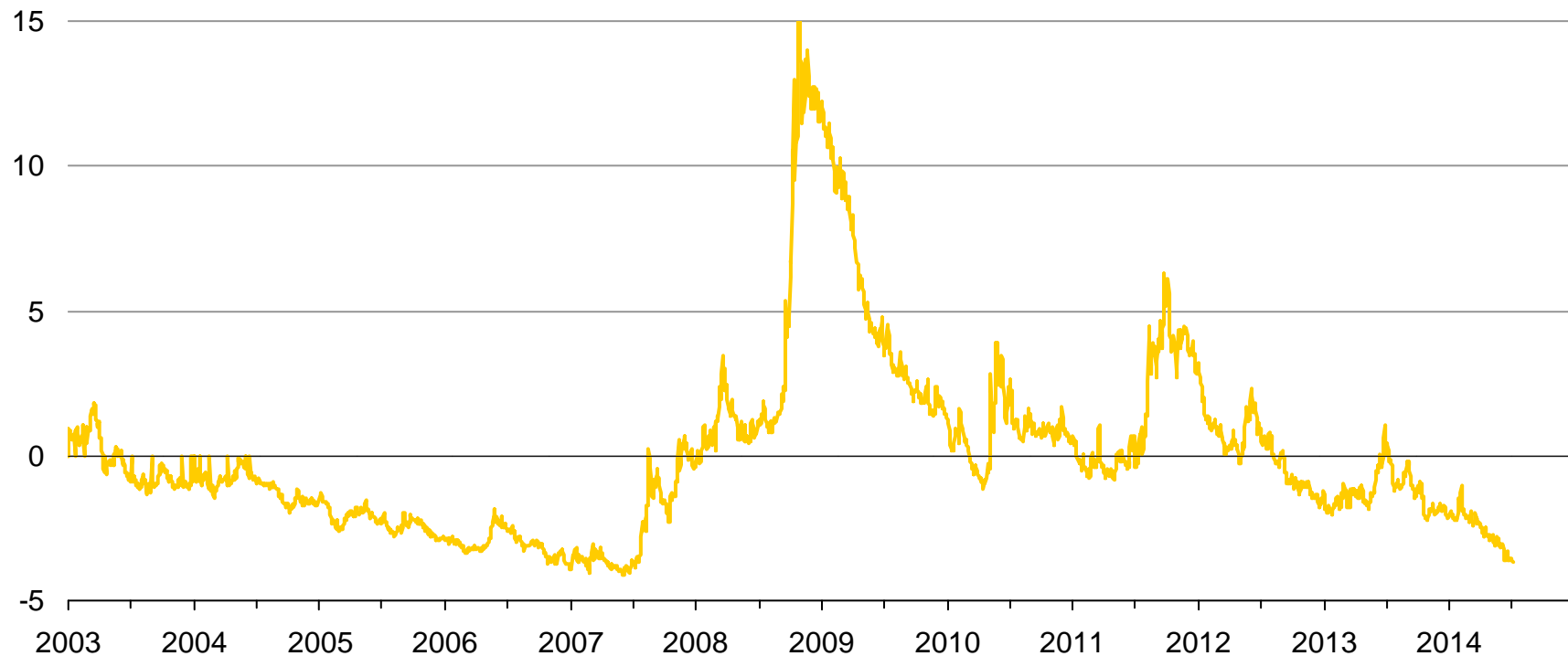
Source: Commerzbank Research

Low volatility across all financial markets

Near to the 2007 lows

Commerzbank ARPI²: index of global risk perception (i.e. vols)

Long-term average: zero



Source: Commerzbank Research

How does expansionary CB policy depress volatilities?

Two channels

Forward guidance / zero lower bound

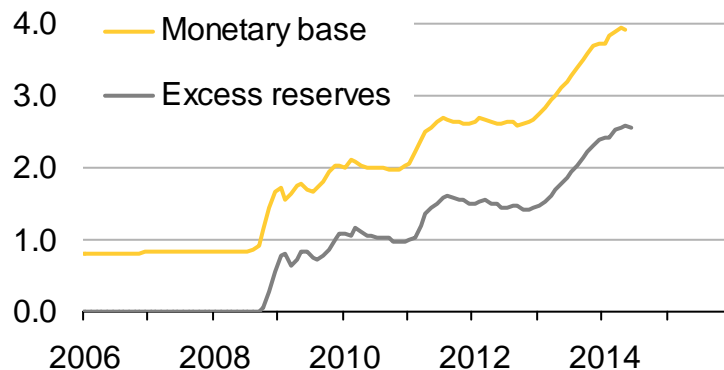
- › Near the zero lower bound CB policies become “passive”, i.e. are under-reacting on inflation / growth shocks.
- › Forward guidance makes CB policies independent from marginal shocks.
- › The marginal impact of surprises in inflation / growth on CB policies shrinks.

QE

- › Central banks conducting QE take risky assets off the market (T-notes: duration risk, MBS: credit risk etc.)
- › They enforce high levels of low-yielding, low-risk excess reserves (as long as net lending is restricted).
- › The result:: hunt for yields, i.e. ample capital supply.
- › Leverage effect: Ample capital supply reduces re-financing risks of governments and companies.
- › Factors affecting re-financing demand are irrelevant for credit risks and don't cause volatility.

The Fed's QE increases excess reserves

USD trillion



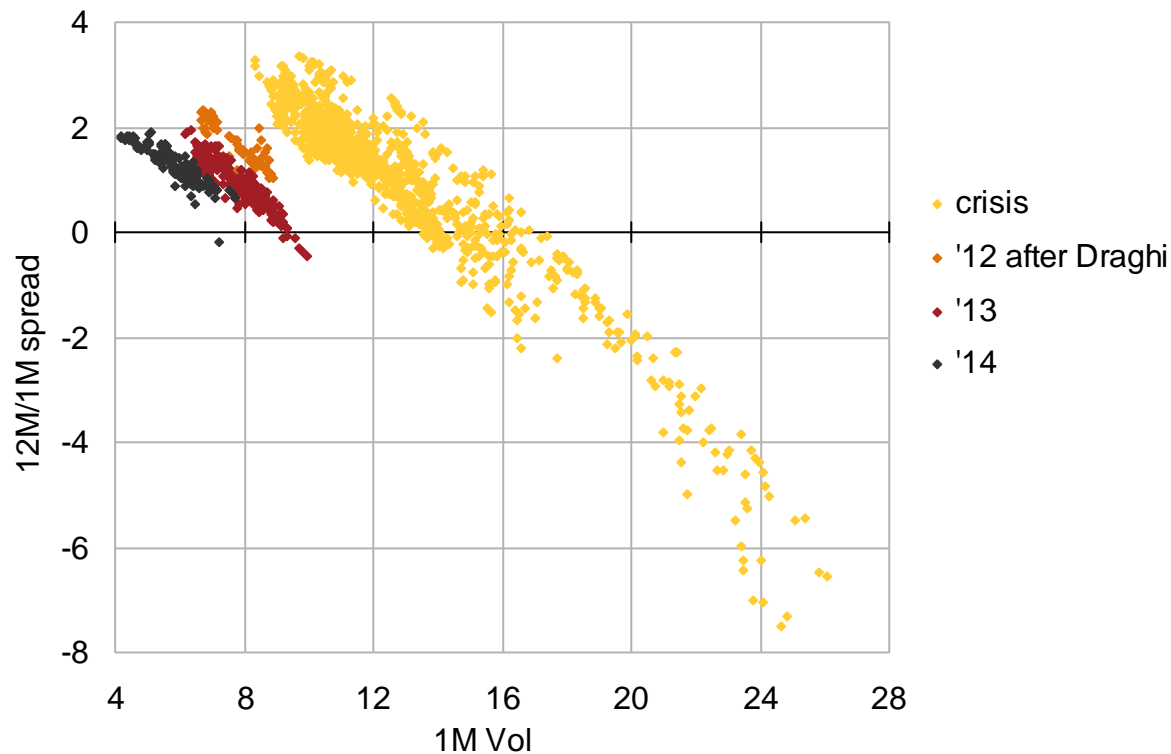
Source: Federal Reserve System

Is the FX market complacent?

Market complacency increased steadily after the end of the crisis

Conditional on the vol level, the EUR-USD vol curve is getting flatter

EUR-USD: 12M/1M vol calendar spread, 1M vol level; percent cf. percentage points annualized



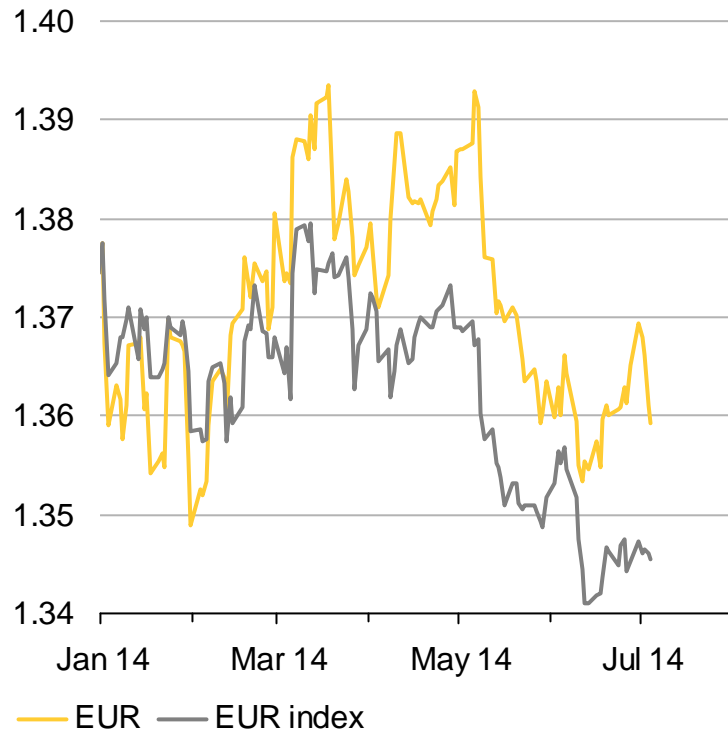
Sources: Bloomberg, Commerzbank Research

The effect of ECB's measures on EUR exchange rates

The intensified QE discussion, not the actual ECB measures, caused EUR weakness

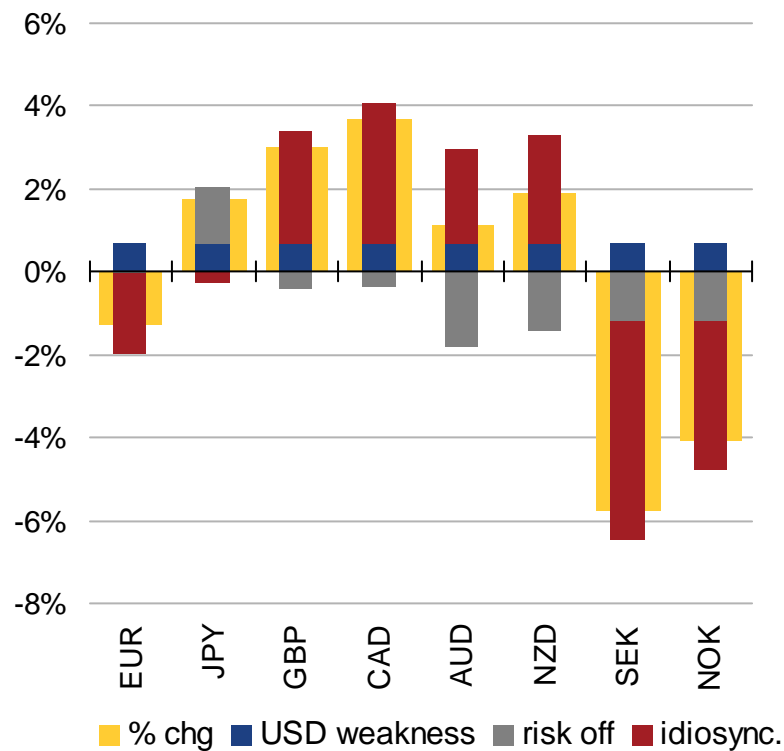
EUR weakness masked by USD weakness

EUR-USD and idiosyncratic EUR factor ytd



EUR weakness since discussion about €QE intensified

USD exchange rate moves since April 2nd



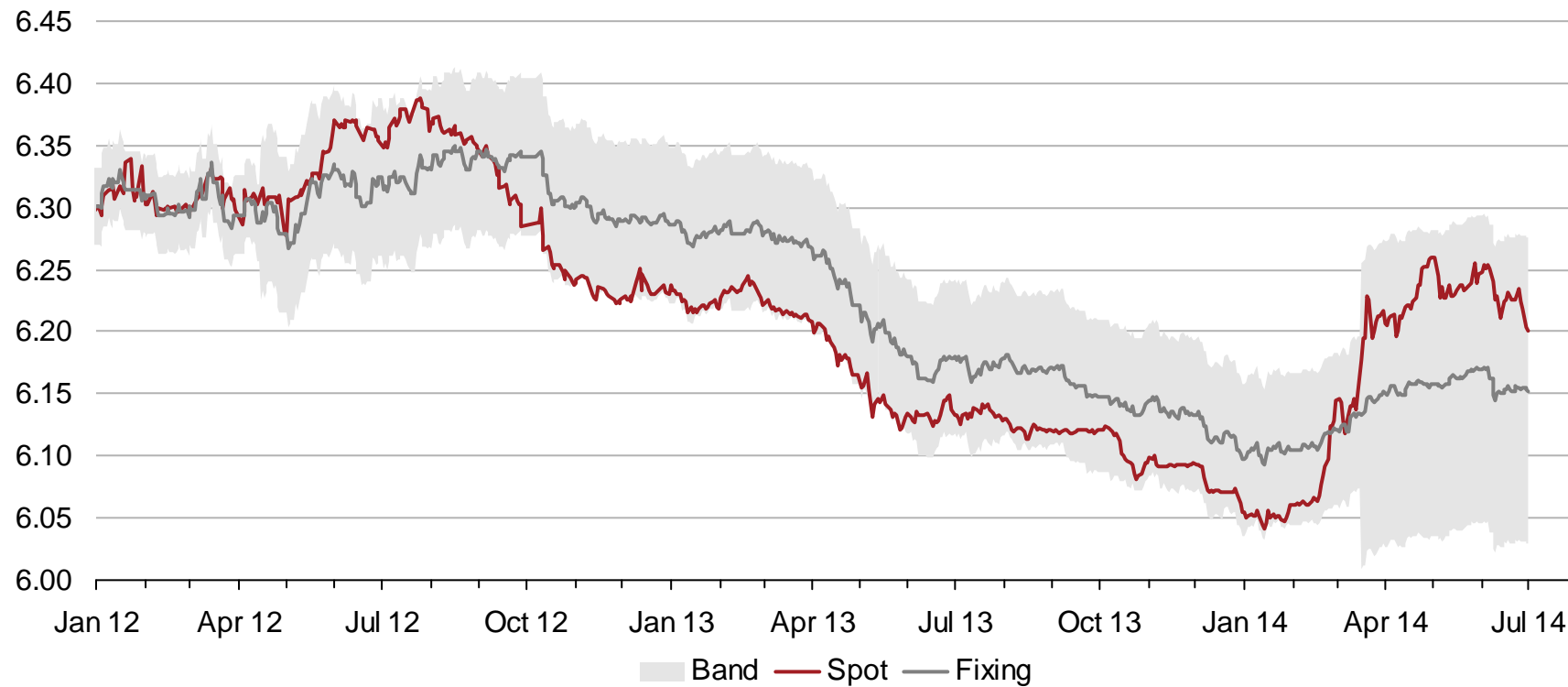
Sources: EBS, Commerzbank Research

The “new normal” of USD-CNY?

Depreciation instead of appreciation, higher volatility

USD-CNY

Spot, PBoC “Fixing” and permitted band



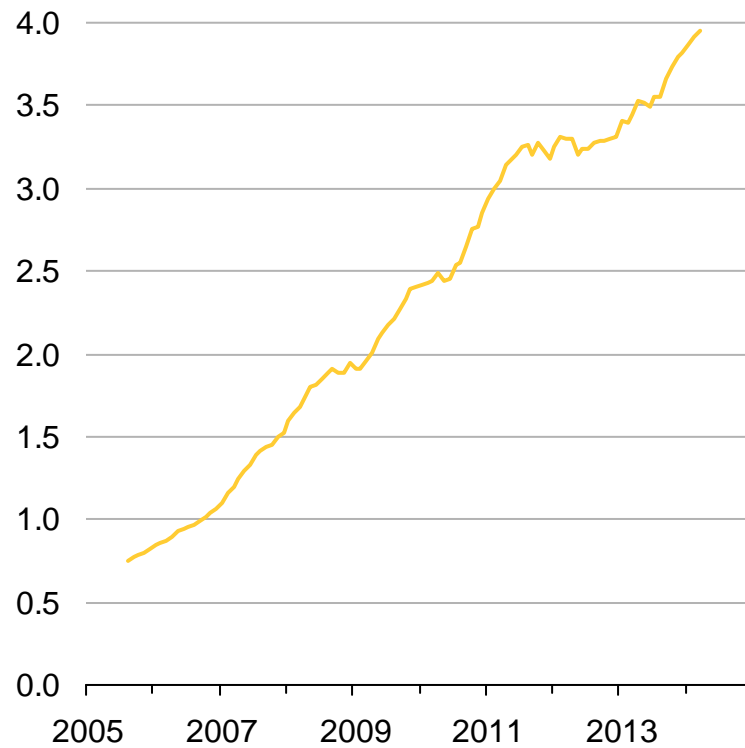
Sources: PBoC, Bloomberg L.P.

CNY weakness: managed or enforced?

PBoC continues to accumulate reserves

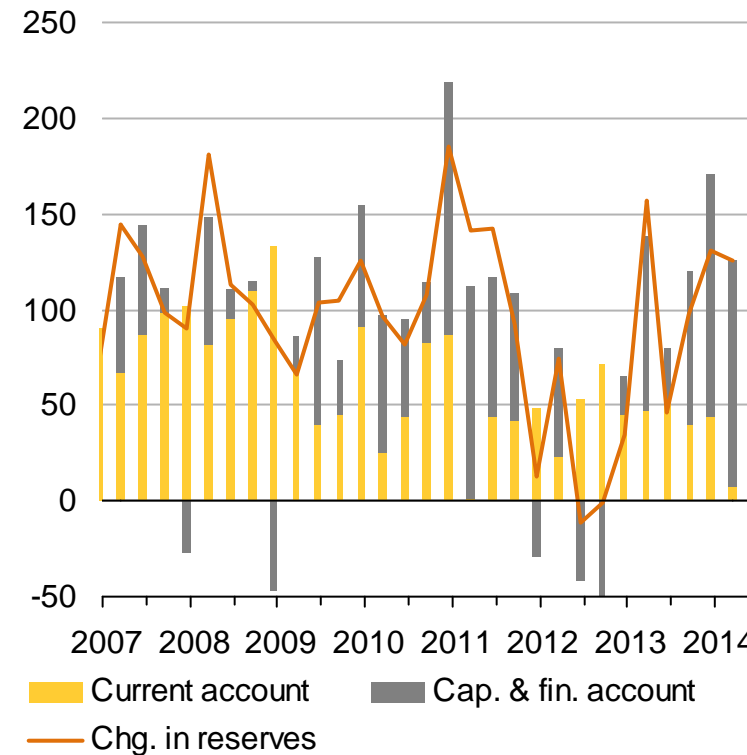
China's FX reserves

trillion USD



China's balance of payments

quarterly, USD billions



Sources: Peoples Bank of China, National Bureau of Statistics, Commerzbank Research

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