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Market review

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Disclaimer: The views expressed in this presentation are those of the author and do not necessarily represent those of the ECB or the Eurosystem.
• Low/Negative interest rates – European currencies / Japanese yen
• Commodity dynamics – EM and DM currencies
• Policy divergence - US dollar / euro
• Political risk – Pound Sterling
State Street’s relationship analysis within FX market

How connected are currencies...

..1 year ago
..this year
..over time

Source: State Street Global Markets ‘Global Strategy Weekly’
Note: base currency US dollar
Policy divergence between the Fed and the ECB

Are investors revisiting the topic of policy divergence?

Source: Bloomberg LP, ECB
Will inflation expectations between the US and the euro area continue to diverge?
Uncertainty remains elevated ahead of the UK – EU referendum

Sterling currency pairs indicate implied uncertainty even though fears moderated slightly

GBP/USD and non-commercial positions

GBPUSD and EURUSD 3m volatility

Source: CFTC & Bloomberg
Note: GBP/USD exchange rate and CFTC non-commercial futures positions in GBP/USD. Z-score assumes a gaussian distribution over a 1y horizon.

Source: Bloomberg & ECB
Note: The chart shows the 3-month volatility of ATM FX options of GBP/USD and EUR/USD.
Uncertainty remains elevated ahead of the UK – EU referendum

Exchange rate expectations skewed to GBP depreciation – more to come?

Source: Bloomberg LP

Notes: Implied skewness calculation is based on the 3-month 25 delta risk reversal of GBP/USD currency option.