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.
1. Market Structure
   - International role of the euro - 2016 interim report
   - BIS triennial survey – Headline results

2. Market developments following US election
Euro remained second most important currency in international monetary system (percent of total)

Sources: BIS, IMF, SWIFT, CLS and ECB calculations.
Notes: A comparison of selected international currencies. Data as at end-2015 or latest available.
### Share of euro declined slightly across number of indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Latest</th>
<th>Comparison period</th>
<th>Difference (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock of global FX reserves (known currency composition)</td>
<td>19.9</td>
<td>20.5</td>
<td>-0.6</td>
</tr>
<tr>
<td>International debt (stock, narrow measure)</td>
<td>22.7</td>
<td>21.6</td>
<td>1.1</td>
</tr>
<tr>
<td>International loans (stock)</td>
<td>21.9</td>
<td>21.6</td>
<td>0.3</td>
</tr>
<tr>
<td>International deposits (stock)</td>
<td>24.8</td>
<td>23.5</td>
<td>1.3</td>
</tr>
<tr>
<td>FX debt issuance</td>
<td>21.9</td>
<td>32.4</td>
<td>-10.5</td>
</tr>
<tr>
<td>Cross-border loan issuance</td>
<td>21.3</td>
<td>28.0</td>
<td>-6.7</td>
</tr>
<tr>
<td>Daily FX trading (settled by CLS)</td>
<td>37.6</td>
<td>38.5</td>
<td>-0.9</td>
</tr>
<tr>
<td>FX loans in CESEE countries</td>
<td>86.1</td>
<td>81.9</td>
<td>4.2</td>
</tr>
<tr>
<td>FX deposits in CESEE countries</td>
<td>82.3</td>
<td>83.9</td>
<td>-1.6</td>
</tr>
<tr>
<td>Invoicing of goods exported from the EA</td>
<td>58.2</td>
<td>58.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>Invoicing of goods imported to the EA</td>
<td>48.1</td>
<td>48.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Foreign holdings of euro area debt denominated in euro</td>
<td>19.3</td>
<td>20.3</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

Sources: BIS, Dealogic, IMF, national sources and ECB calculations.
Trend towards greater multipolarity in international monetary system

Euro’s share in foreign exchange reserves declined in parallel with US dollar
(per cent, at constant end-2015 exchange rates)

Greater multipolarity in the currency composition of global payments
(per cent, at current exchange rates)

Sources: IMF and ECB calculations.
Notes: Currency composition of global foreign exchange reserves. The latest data are for the final quarter of 2015.

Source: SWIFT.
Notes: Inbound plus outbound payments. Based on value. Data for each year refer to the end of January.
Monetary policy expectations major driver of FX movements

Movements in USD/EUR largely explained by fluctuations in long-term real interest rate differentials

Sources: Bloomberg and ECB.
Notes: Real USD/EUR exchange rate and its UIP benchmark; percentage deviation from sample average. The decomposition of the real bilateral exchange rate is based on the forward solution of the risk-adjusted UIP condition.

Foreign demand for euro area debt securities declined in 2015
(in EUR billion, quarterly flows)

Source: ECB.
Notes: Euro area portfolio liabilities. Balance of payments of the euro area. The latest data are for January 2016.
**Temporary spike in euro denominated debt issuance in 2015**

**Share of the euro in foreign currency-denominated debt issuance declined**
(per cent, at current exchange rates)

Sources: Dealogic and ECB calculations.
Notes: Currency composition of foreign currency-denominated debt issuance. The latest data are for Q1 2016.

**The euro’s share in outstanding international debt markets rebounded slightly**
(per cent, at constant end-2015 exchange rates)

Sources: BIS and ECB calculations.
Notes: Currency composition of outstanding international debt securities. The latest data are for 2015.
EME debt issuance and lower funding costs drive USD issuance

Foreign-currency debt issuance in emerging market economies declined
(USD billions, at current exchange rates)

Cost of international debt issuance in US dollar remained favourable
(five-year cross-currency basis swap against US dollar, in basis points)

Sources: Dealogic and ECB calculations.
Notes: The data for 2016 are based on data up to Q1 2016. Volumes for 2016 are annualised.

Source: Bloomberg.
Notes: Benchmark cross-currency basis swap agreements between two parties to exchange interest payments and principals denominated in US dollars against euro, yen and sterling. Latest data are for 31 March 2016.
**Euro’s share broadly stable in international loan markets**

**Share of the euro in outstanding cross-border loans broadly stable**
(Per cent, at constant end-2015 exchange rates)

Sources: BIS and ECB calculations.
Note: Currency composition of outstanding amounts of cross-border loans. The latest data are for Q3 2015.

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**Large proportion of euro-denominated foreign currency cross-border loans issued in Europe**
(Per cent, at current exchange rates)

Source: BIS and ECB calculations.
Notes: Currency composition of foreign currency-denominated cross-border loans by region as at Q3 2015.
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2. Market developments following US election
Average daily FX volume in April 2016 declined to USD 5.1 trillion

Source: BIS Triennial Central Bank Survey
The geographical location of the FX market is becoming increasingly concentrated

Hedge funds now account for a significantly decreased share of the FX market in stark contrast to institutional investors

Source: BIS Triennial Central Bank Survey
Note: * breakdown of ‘other financial institutions’
BIS Triennial Central Bank Survey - market share by currency

The US dollar remains the most dominant currency

Source: BIS Triennial Central Bank Survey
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2. Market developments following US election
Investor reaction to Trump, week one

Flows following the US election

Source: State Street Global Markets, Flows between 9th -15th November
Flows following the US election

EM sell off is correlated with foreign bond ownership

Source: Bloomberg, State Street Global Markets, Flows between 9th -15th November
Political events

FX options skew ahead of key votes

Source: State Street Global Markets, Bloomberg
Huge outflows from euro area fixed income

Huge outflows from Eurozone fixed income

- Foreign investor demand for long-term Eurozone debt
- Eurozone investor demand for foreign long-term debt

Outflows appear to be fully hedged

- Euro investor FX hedge ratio on fixed income

Source: State Street Global Markets, Bloomberg
Tracking the behaviour of international investors around Brexit

Foreign demand for UK government bonds, equities and sterling

Source: State Street Global Markets