DG-Market Operations

Review of FX markets developments and outlook

ECB Foreign Exchange Contact Group
Frankfurt am Main, 6 September 2018

The views expressed are those of the author and do not necessarily reflect those of the ECB
Wide trading range across asset classes amid focus on Turkey, Italy & trade development

**Equity, commodity & FX moves ranges (%)**

- Eurostoxx Banks
- Eurostoxx 50
- FTSE 100
- Shanghai
- Nikkei
- S&P 500
- Gold
- Brent oil
- Copper
- CNY/USD
- JPY/USD
- EUR/USD
- ZAR/USD
- ARS/USD
- TRY/USD

**10Y Government bond yields moves ranges (bps)**

- UK
- JP
- DE
- US
- IT-DE Spread
- ES-DE Spread
- GR-DE Spread

Sources and notes: Bloomberg & ECB calculations
Start date: 20/06/2018
Euro remaining in trading range and stronger US dollar supported by continued trade tension

Effective exchange rates, EUR and USD

EUR against basket of currencies

Sources and notes: Bloomberg, Federal Reserve & ECB calculations

Start day: 20/06/2018
The most pronounced currency depreciations are attributable to idiosyncratic forces rather than common factors

Decomposition of emerging market exchange rates’ change against USD

Fund flows into/out of Emerging Markets

Source: Bloomberg and ECB calculations. Data range: 30 Mar – 31 Aug 2018. Notes: The decomposition of exchange rate changes is the result of the factor analysis conducted using the covariance matrix of the most significant developed and emerging market currencies’ exchange rates for the sample period of the last 2.5 years. Positive numbers indicate the depreciation of the local currencies against the US dollar.
Shares of euro area banks under pressure amid Turkish lira turmoil, but the FX contagion of Turkish turmoil remains limited

Sources and notes: Bloomberg & ECB calculations
Short positions in British pound have built and Swiss franc is strengthening

CFTC speculative positioning and British pound

<table>
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<tr>
<th>1000 contracts</th>
<th>Net GBP Positions (LHS)</th>
<th>GBP/USD Rate (RHS)</th>
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<tr>
<td>Aug 13</td>
<td>-120</td>
<td>1.20</td>
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<tr>
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CFTC speculative positioning and Swiss franc

<table>
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<tr>
<th>1000 contracts</th>
<th>Net CHF Positions (LHS)</th>
<th>USD/CHF Rate (RHS, inverted)</th>
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<td>Aug 19</td>
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Sources and notes: Bloomberg, CFTC & ECB calculations
Questions for discussion

• What have been the key drivers for the recent US dollar strength and will it be continuing?

• What are the reasons for the emerging market turmoil being contained to certain jurisdictions?

• Is the current level of FX volatility appropriately reflecting market risk events?