Chart Pack for ECB FXCG Meeting
June 2024

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Eurozone inflation – online a little sticky, but not worrying
Inflation is moving back to target, but requires continued services disinflation

Eurozone Online Inflation stable – note, services and housing are not well represented

Online inflation is a little firmer than normal – but it’s mostly energy

US Online Inflation has normalized

US Sectors - PriceStats

Monthly Inflation vs Seasonal Range and Seasonal Average

Source: State Street Global Markets, PriceStats
Global outlook

Fewer economic surprises across G10

Treasury yields rise, and fall, with oil prices

US NFP vs NFIB hiring plans (4m advanced)

Quits Rate (and a low hire rate) indicates more balance in the labour market

Source: State Street Global Markets, Bloomberg

Information Classification: General
**Investment Climate – Sentiment bounce**

**FX holdings: Developed vs Emerging Markets**

**USD overweight, but unwinding – Commodity FX and GBP the main beneficiaries**

<table>
<thead>
<tr>
<th>Developed Markets</th>
<th>Flows</th>
<th>Flows Last Week</th>
<th>Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar</td>
<td>23.6%</td>
<td>31.9%</td>
<td>80.2%</td>
</tr>
<tr>
<td>Euro</td>
<td>38.5%</td>
<td>58.2%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>34.3%</td>
<td>30.5%</td>
<td>43.7%</td>
</tr>
<tr>
<td>British Pound</td>
<td>75.2%</td>
<td>63.7%</td>
<td>42.8%</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>52.0%</td>
<td>50.5%</td>
<td>79.1%</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>31.7%</td>
<td>18.6%</td>
<td>67.2%</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>32.1%</td>
<td>75.0%</td>
<td>94.0%</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>97.0%</td>
<td>83.6%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>36.1%</td>
<td>8.8%</td>
<td>78.2%</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>94.0%</td>
<td>85.2%</td>
<td>62.9%</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>97.6%</td>
<td>98.1%</td>
<td>92.7%</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>97.9%</td>
<td>97.5%</td>
<td>43.7%</td>
</tr>
</tbody>
</table>

**Piling back into EM carry (TRY, INR, IDR, MXN, BRL)**

<table>
<thead>
<tr>
<th>Emerging Markets</th>
<th>Flows</th>
<th>Flows Last Week</th>
<th>Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polish Zloty</td>
<td>24.4%</td>
<td>40.4%</td>
<td>48.5%</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>26.3%</td>
<td>54.5%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>99.9%</td>
<td>100.0%</td>
<td>96.6%</td>
</tr>
<tr>
<td>South African Rand</td>
<td>35.6%</td>
<td>45.7%</td>
<td>32.0%</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>98.8%</td>
<td>99.3%</td>
<td>96.2%</td>
</tr>
<tr>
<td>Israeli Shekel</td>
<td>52.0%</td>
<td>53.8%</td>
<td>83.5%</td>
</tr>
<tr>
<td>Chinese Renminbi</td>
<td>77.0%</td>
<td>82.6%</td>
<td>79.0%</td>
</tr>
<tr>
<td>Korean Won</td>
<td>87.1%</td>
<td>68.4%</td>
<td>43.7%</td>
</tr>
<tr>
<td>Taiv anese Dollar</td>
<td>88.8%</td>
<td>86.2%</td>
<td>95.7%</td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>92.8%</td>
<td>91.8%</td>
<td>62.8%</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>87.9%</td>
<td>82.7%</td>
<td>94.8%</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>5.8%</td>
<td>5.6%</td>
<td>46.3%</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>1.6%</td>
<td>0.9%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>67.6%</td>
<td>75.7%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>81.4%</td>
<td>75.0%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>94.8%</td>
<td>95.7%</td>
<td>50.8%</td>
</tr>
<tr>
<td>Chilean Peso</td>
<td>33.4%</td>
<td>64.8%</td>
<td>87.0%</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>50.6%</td>
<td>45.2%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Peruvian Nuevo Sol</td>
<td>50.6%</td>
<td>61.7%</td>
<td>32.0%</td>
</tr>
</tbody>
</table>

Percentiles of past flows.

The flow indicators have a 2-business-day lag.

Source: State Street Global Markets, data as of 31 May 2024

Information Classification: General
Investor Behaviour in Eurozone Assets and the EUR

Eurozone asset flows are on the weak side, in both equities and bonds; EURUSD underweight is large and static – foreign and domestic interest in EUR is low.

Investors are selling out of EZ government bonds

Equities – overweights getting extended in SP, IT, continued selling in FR

EUR – investor underweight still sizable

Source: State Street Global Markets, data as of 27 May 2024
Hedge Ratio Estimates – Foreign Holders of EZ Assets

Equity hedge ratios near series highs; Fixed Income hedge ratios steady around 85%
Hedge Ratio Estimates – EZ Holders of Foreign Assets

Eurozone investors hedging less FX risk back to EUR, especially in equities

Source: State Street Global Markets
Hedge Ratio Estimates – Foreign Holders of US Assets
Not surprisingly, hedging of USD assets is steadily falling

Source: State Street Global Markets
GlobalLink FX Platform discussion points

**General Volume Trends (from GlobalLink platforms)**

**Key Takeaways**
- Overall platform volumes continue to remain muted primarily due to the effects of consistent higher interest rates, real money cash holdings and their effect on hedging requirements.
- Following a challenging 2022, 2023 saw more consistent volumes in the real money space.
- 2024 year to date has seen some improvement versus Q4 2023 however, volumes have softened in Q2 versus Q1 with volumes for April and May down ~ 5% versus the yearly average.
- Changes in recent capital regulation has seen a shift of volumes from U.S. based banking entities to those located in the E.U.

**Currency Specific Trends (from GlobalLink platforms)**

**Key Takeaways**
- USDJPY volumes for real money lower in April and May however volatility at the end of April saw increased trading with institutional clients.
- XAUUSD there has been a recent increase in trading with our institutional clients who traded the largest volume in three years in April.

**Real Money Trends**

**Key Takeaways**
- Client are seeking more automation in their execution. May saw the highest yearly volume of auto execution with an increase of 17% from March to May:
  - These trends in automation are both in a ‘low’ or ‘no’ touch capacity.
  - This trend is seeing clients wishing to automate small trades in order to allow them to focus their limited resources on larger or more complex trades.
  - For larger trades clients are seeking greater data decision capabilities to select counterparties or execution methods.
- T+1 is increasing focus on follow-the-sun operating models. This is driving increased emphasis on seamless integration between execution and post trade systems. Venues such as FX Connect are extending closing times particularly in Europe in order to facilitate clients T+1 trading liquidity needs.
- There has been a shift in client preference towards more sophisticated, opportunistic algorithms as opposed to more traditional TWAP and VWAP algorithms.
- Improved transparency, education and client understanding is leading to clients favoring algorithms that can capitalize on market opportunities more effectively.
Discussion Points

1) Do participants generally subscribe to "higher for longer" and a high $r^*$, or that we eventually revert to rates coming down towards pre Covid levels?

2) Are developed markets too relaxed about the risk of the US elections considering the FX moves we have seen after the Mexico, SA and Indian elections?

3) Will gold continue to strengthen and for how long?
Appendix
FX market conditions have normalized
Rate volatility normalization suggests a volatility trough

DM FX volatility is back to a trough and well below long-run moving averages, reflecting very low realized volatility and a more defined rate outlook. The bar for further tightening is very high in most economies.

EURUSD reflects this broader dynamic with the ECB poised to begin easing in June and the Fed likely later this year/early 2025. The right-hand side of the distribution looks cut off, for now.

The premium paid for EURUSD downside is normal, in line with consensus EURUSD positioning and, therefore, consistent with forward rate differentials.

Source: State Street Global Markets, Bloomberg
EURUSD trading conditions are unique

Interbank conditions suggest less interest but no effect on spreads

EURUSD volumes are normal, but currently weaker than interest in other G10 pairs. G10 volumes have picked up in aggregate to return to above median levels, with USDJPY and USDCHF the biggest laggards with below median volumes in the past week, and weaker activity in EURUSD too.

EURUSD order books at lightest levels of last year (extreme reading is down to 1y percentile window – order books are normal over longer histories).

Lower volumes and a drop in liquidity have not led to wider spreads. Indeed, trading costs are currently at the biggest discount to a trailing one-year median spread.

Source: State Street Global Markets, Reuters, EBS
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