EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt am Main, Wednesday, 23 September 2026

SUMMARY OF THE DISCUSSION

1. Review of recent FX developments and outlook

Following the presentation by Yasemin Artar (HSBC), the group discussed **recent FX market developments against the backdrop of geopolitical tensions, energy-price shocks, and shifting monetary-policy expectations.**

Interest rate differentials, central bank policies and economic fundamentals have regained prominence as key FX drivers, as earlier structural concerns about the dollar have faded. Participants highlighted that FX volatility is mostly evident in currency pairs where monetary policy paths diverge, while currencies tend to remain more stable where central banks move broadly in parallel. Renewed confidence in the Fed's inflation-fighting credibility, resilient US growth and investment were seen as supportive for the dollar. Participants also stressed that the implications of higher yields depend on their underlying drivers: higher US yields accompanied by economic resilience were viewed differently from increases elsewhere driven by energy-related inflation or fiscal concerns. The US mid-term elections were seen as having limited market relevance if governance continues to rely on executive orders. Impeachment risk was viewed as remote, with limited implications for the US dollar unless accompanied by more extreme political shifts.

Continued low FX volatility despite elevated uncertainty was a central theme of the discussion. Participants pointed to several possible explanations, including relatively aligned central bank policies, a perception that recent geopolitical and energy shocks are temporary rather than structural, more limited FX market participation, and persistent selling of volatility by hedge funds. Some members saw signs of market complacency, while others argued that markets are appropriately waiting for evidence of more persistent economic effects before repricing risk. The low-volatility environment was also seen as reducing incentives for some investors to hedge USD exposures, although interest in protection against tail risks remains.

The euro continues to be driven predominantly by the US dollar and relative rates. Participants highlighted political fragmentation, the absence of a unified European safe asset, proximity to geopolitical risks and the impact of energy prices. French political and fiscal developments featured prominently, while German political developments were raised as a

potential additional tail risk. Higher long-term yields could further expose fiscal vulnerabilities in some European economies.

A sustained appreciation of the Japanese yen would require several factors to align. Participants emphasised the still-large US-Japan yield differential and the need for a credible BoJ tightening path. Repatriation by Japanese investors or changes in institutional asset allocation could provide additional support for the JPY, while structural factors, including Japan's demographic outlook, were also raised as a headwind for the JPY. One member suggested that a combination of at least two factors, such as stronger BoJ credibility, a weaker dollar and changes in domestic asset allocation, would likely be required for a sustained yen recovery.

RMB internationalisation is becoming increasingly visible in trade and corporate funding, but not in official reserve allocation. Members reported increasing use of relatively cheap RMB funding by international corporates, including raising funds in China and swapping the proceeds into dollars or euros for use outside China. Greater RMB invoicing and settlement were also highlighted. However, participants noted that this has not translated into a comparable increase in central bank reserve allocations to the RMB, where capital controls and governance considerations continue to represent constraints.

AI-related investment and hyperscaler financing emerged as an important structural theme to monitor. Participants questioned whether the growing importance of flows into US equities and private-sector assets, alongside large-scale corporate funding across different currencies, could gradually affect traditional FX relationships. One hypothesis was that the dollar could potentially benefit under different AI scenarios: continued US technology outperformance could attract further capital inflows, while a sharp equity correction could restore traditional risk-off support for the dollar. The discussion was exploratory rather than conclusive, but participants saw these evolving capital-flow patterns as potentially important for future FX market functioning.