



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG-Market Operations

Review of FX markets developments and outlook

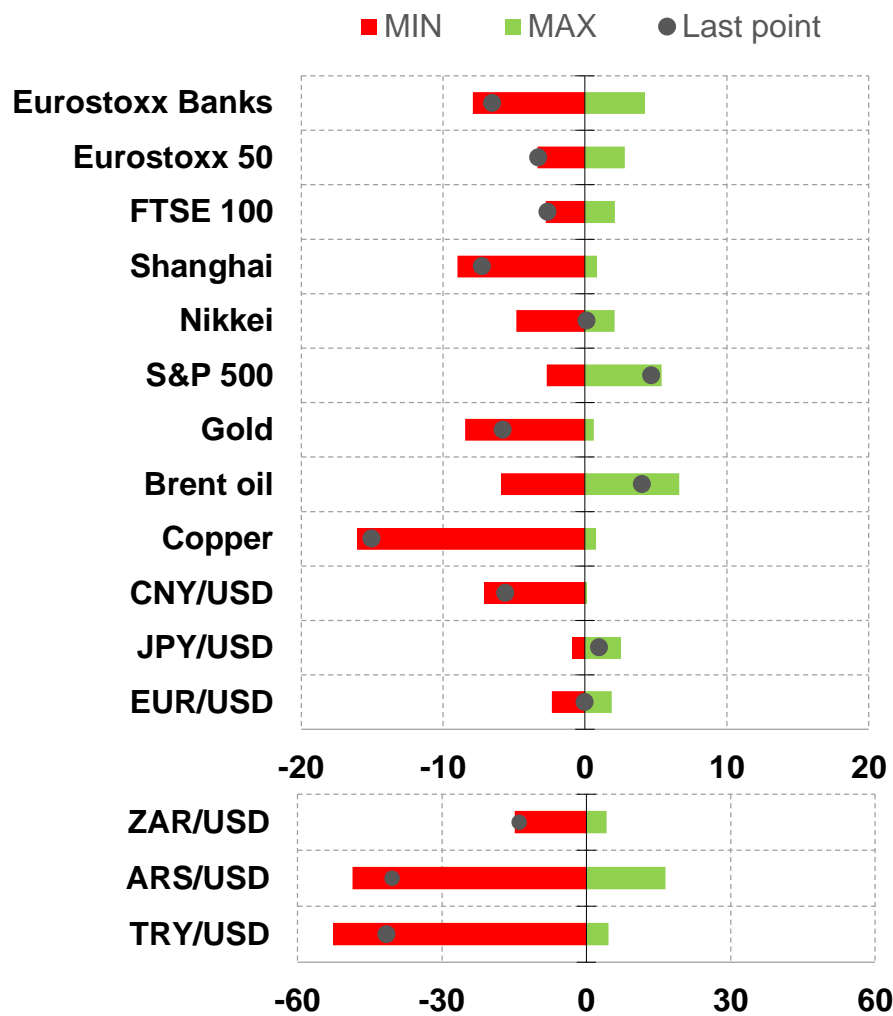
ECB Foreign Exchange Contact Group

Frankfurt am Main, 6 September 2018

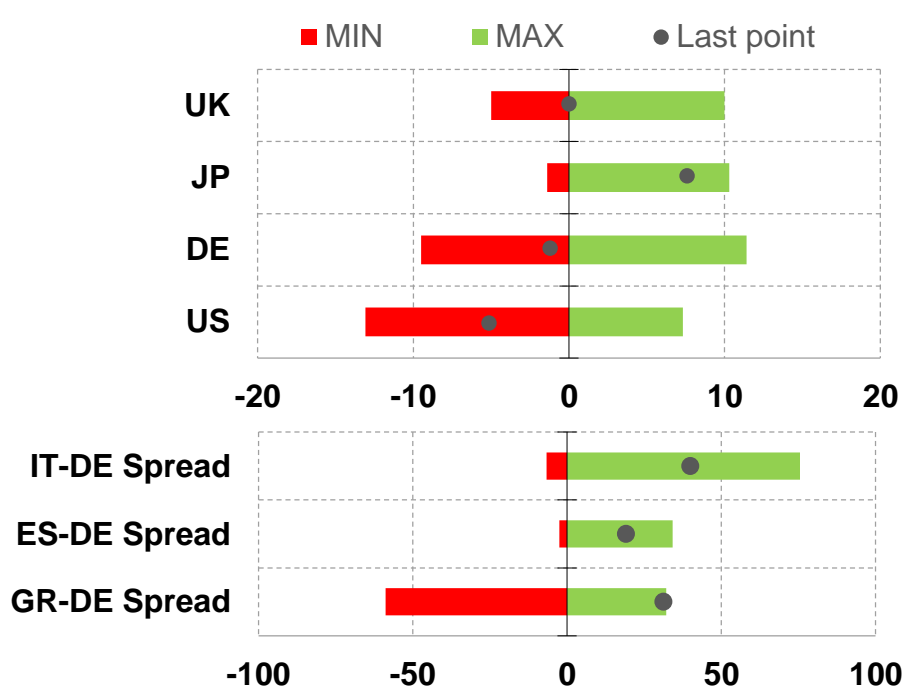
The views expressed are those of the author
and do not necessarily reflect those of the ECB

Wide trading range across asset classes amid focus on Turkey, Italy & trade development

Equity, commodity & FX moves ranges (%)



10Y Government bond yields moves ranges (bps)

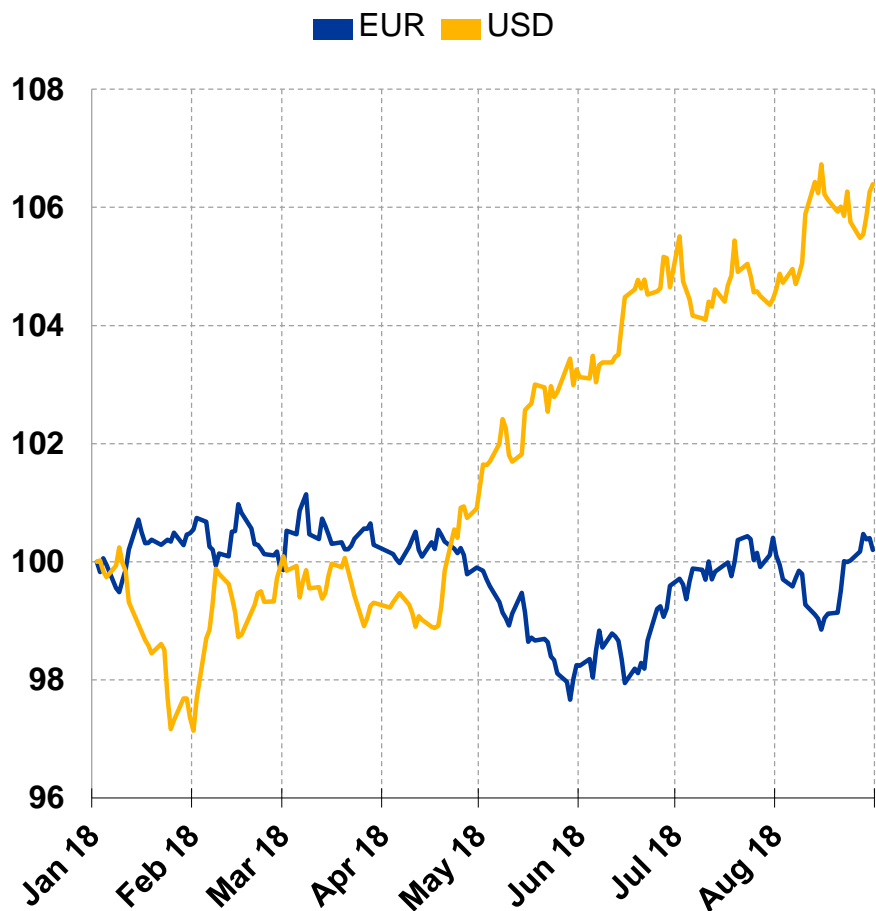


Sources and notes: Bloomberg & ECB calculations

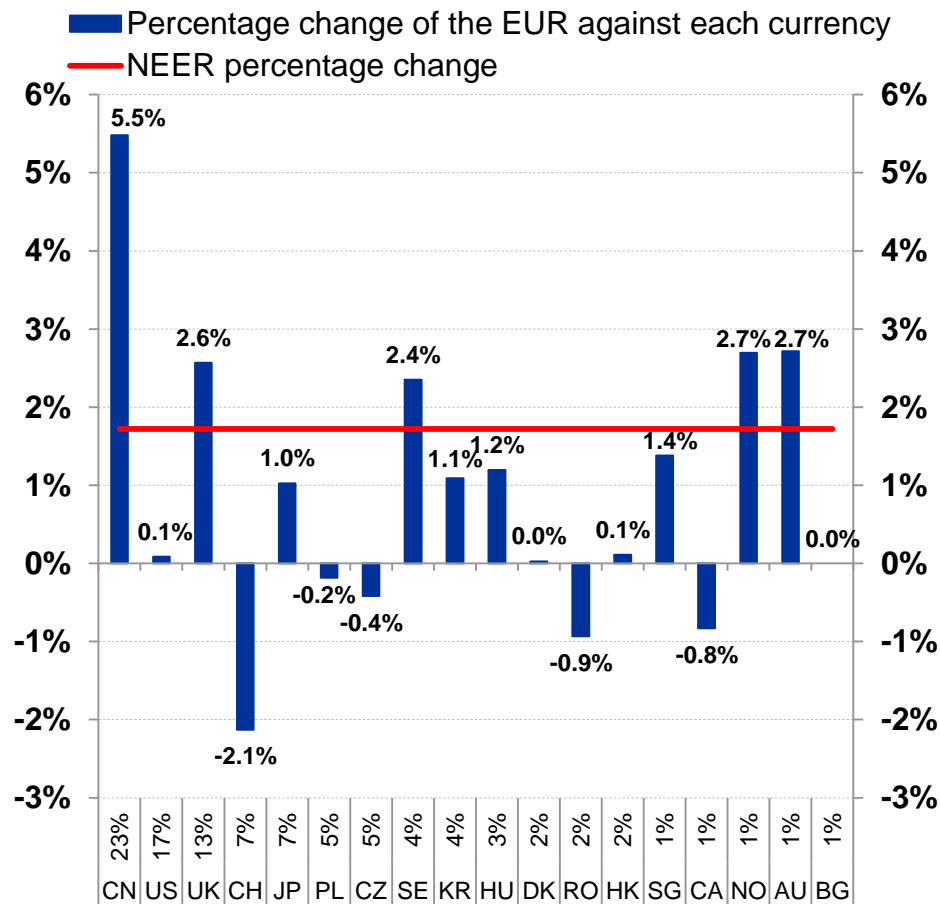
Sources and notes: Bloomberg & ECB calculations
Start date: 20/06/2018

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

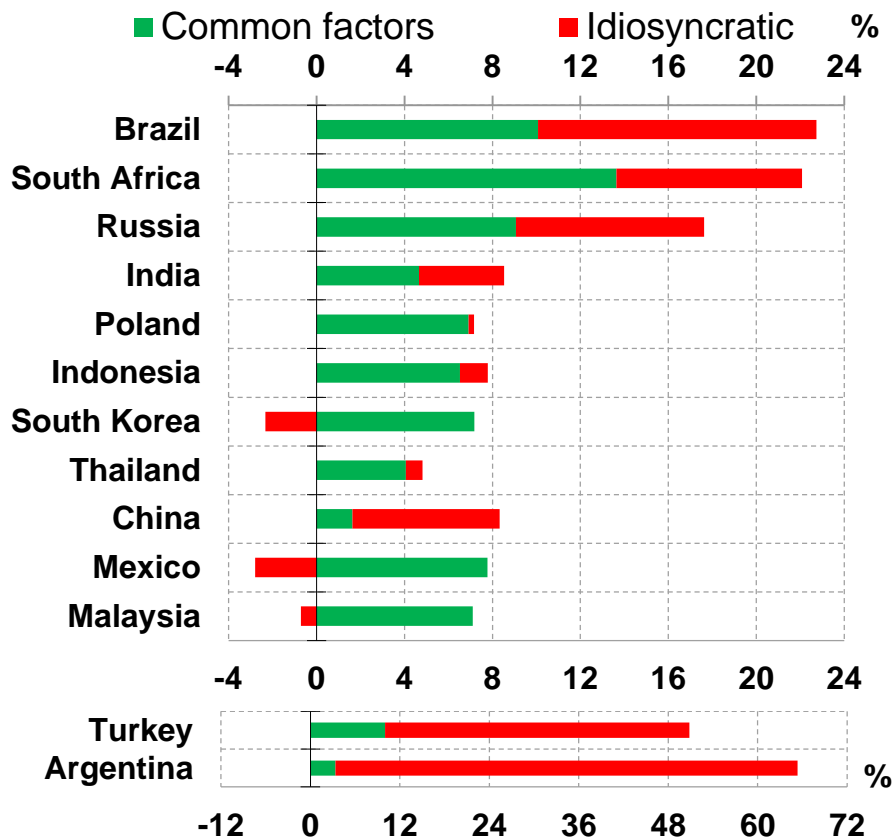


Sources and notes: Bloomberg , Federal Reserve & ECB calculations

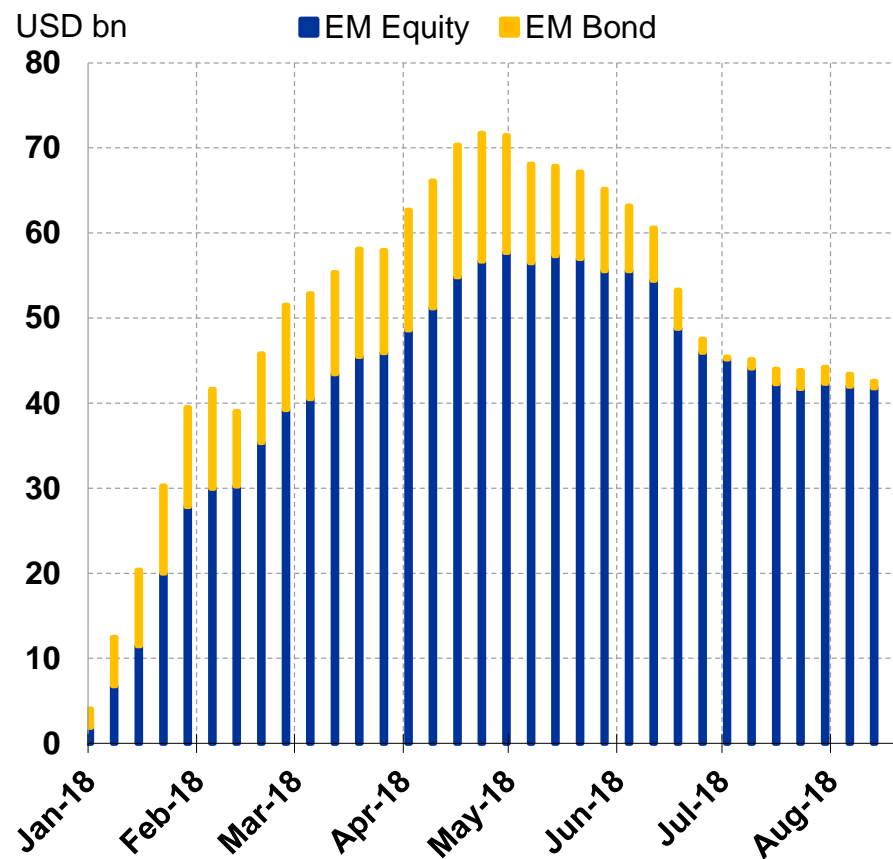
Sources and notes: Bloomberg & ECB calculations
Start day: 20/06/2018

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

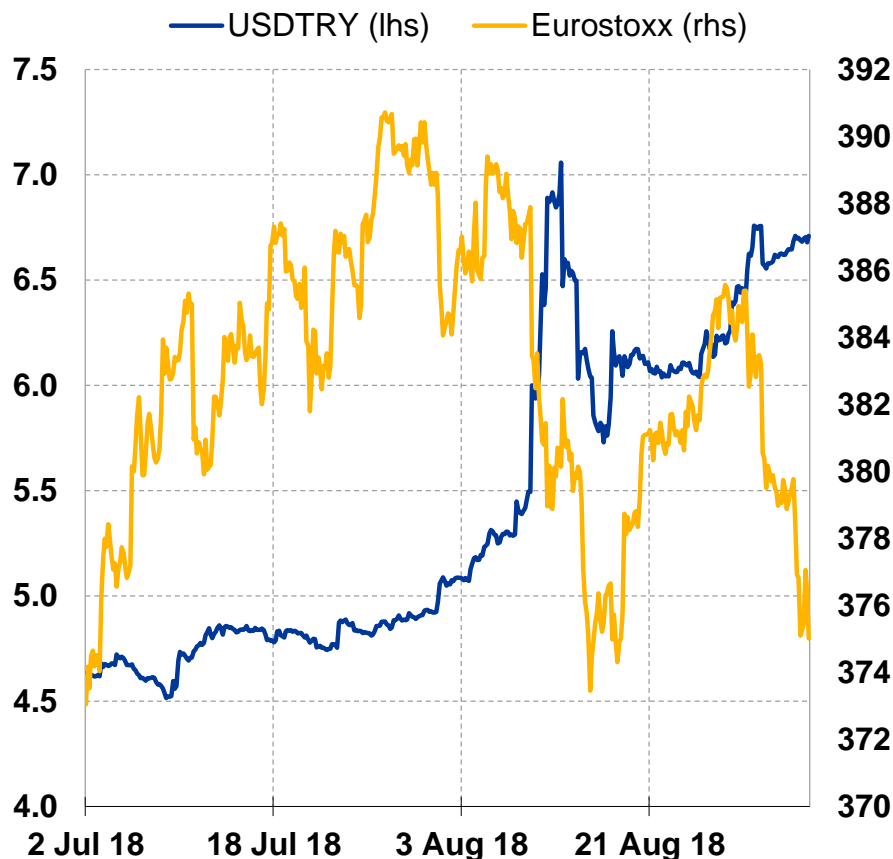


Source: Bloomberg and ECB calculations. Data range: 30 Mar – 31 Aug 2018.
 Notes: The decomposition of exchange rate changes is the result of the factor analysis conducted using the covariance matrix of the most significant developed and emerging market currencies' exchange rates for the sample period of the last 2.5 years. Positive numbers indicate the depreciation of the local currencies against the US dollar.

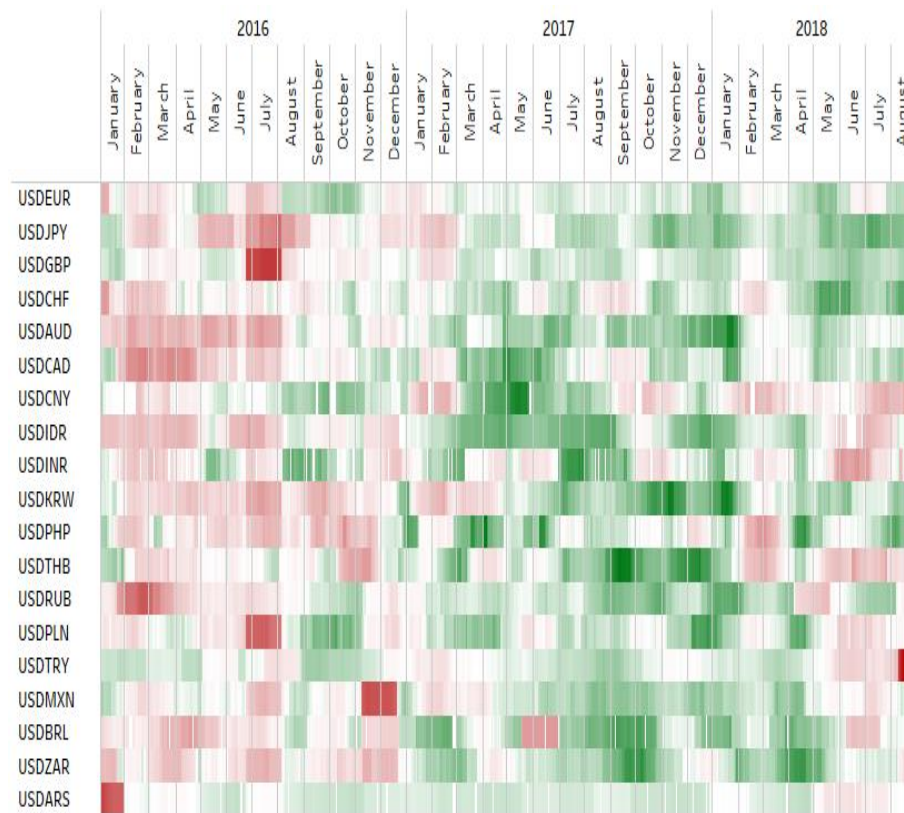
Sources and notes: EPFR & ECB calculation

Shares of euro area banks under pressure amid Turkish lira turmoil, but the FX contagion of Turkish turmoil remains limited

Shares of European stocks versus Turkish lira



Volatility heat map of currency pairs

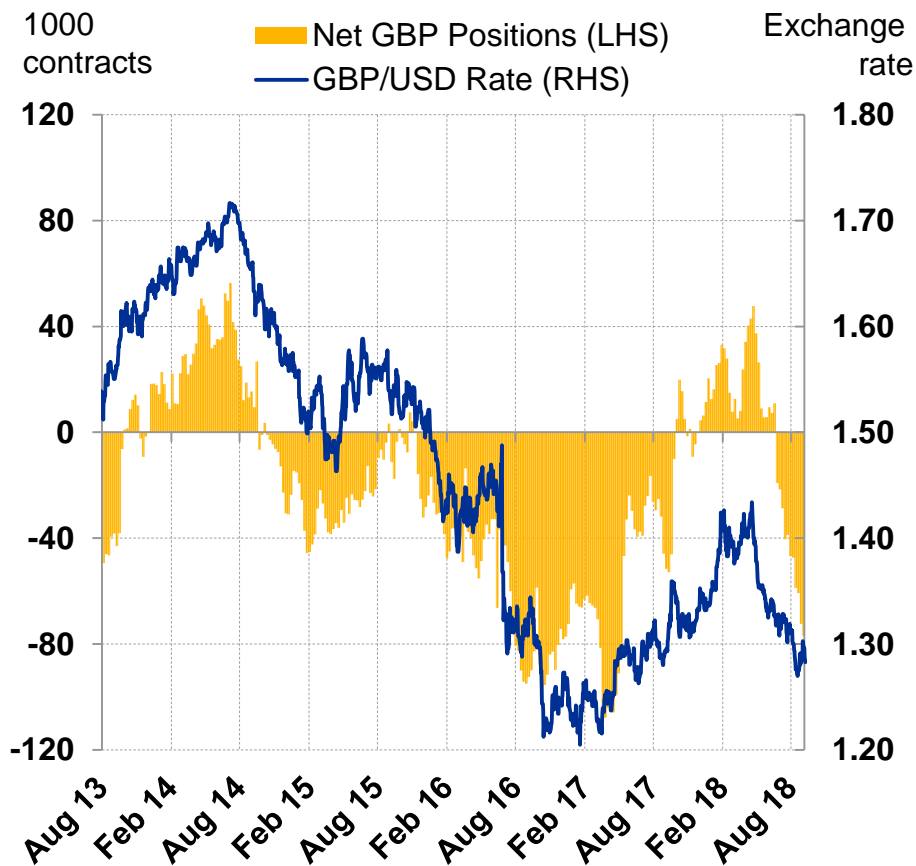


Sources and notes: Bloomberg & ECB calculations

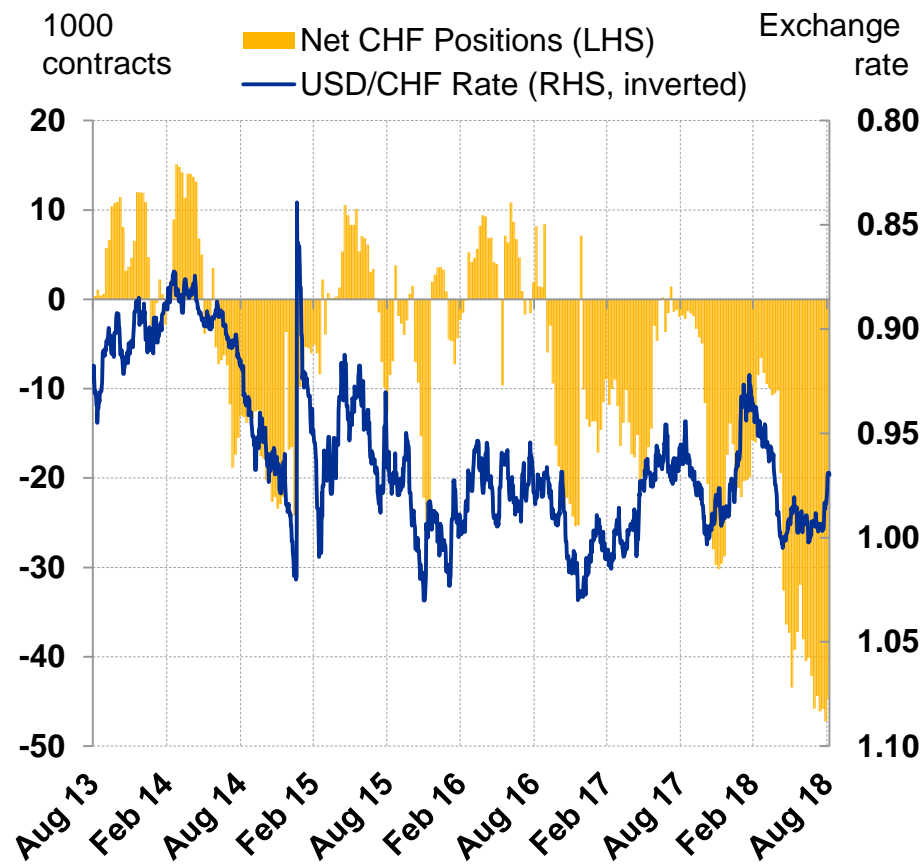
Sources and notes: Bloomberg & ECB calculations

Short positions in British pound have built and Swiss franc is strengthening

CFTC speculative positioning and British pound



CFTC speculative positioning and Swiss franc



Sources and notes: Bloomberg, CFTC & ECB calculations

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?