



EUROPEAN CENTRAL BANK

EUROSYSTEM

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DG Market Operations

Bond Markets and International
Operations Division

Market review

FXCG, 26 April 2016

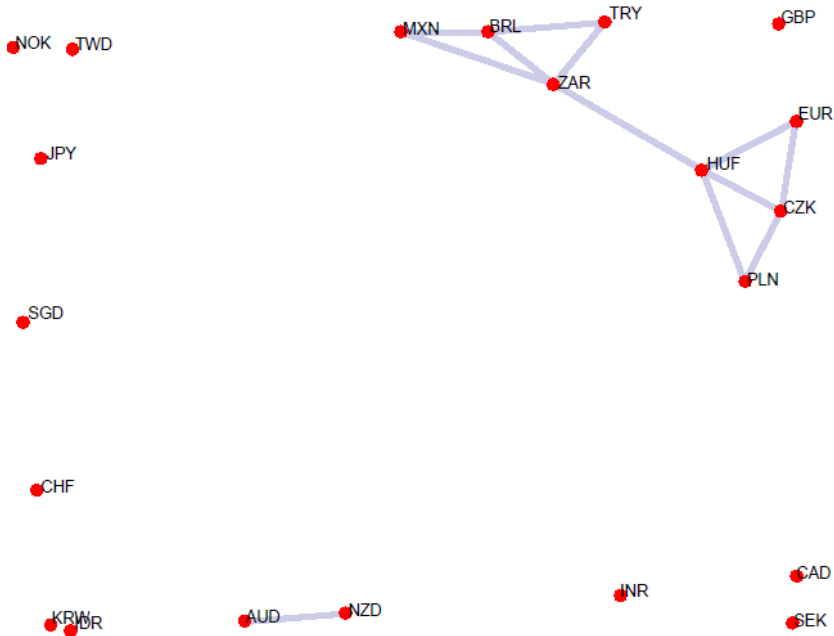
Disclaimer: The views expressed in this presentation are those of the author and do not necessarily represent those of the ECB or the Eurosystem.

- **Low/Negative interest rates – European currencies / Japanese yen**
- **Commodity dynamics – EM and DM currencies**
- **Policy divergence - US dollar / euro**
- **Political risk – Pound Sterling**

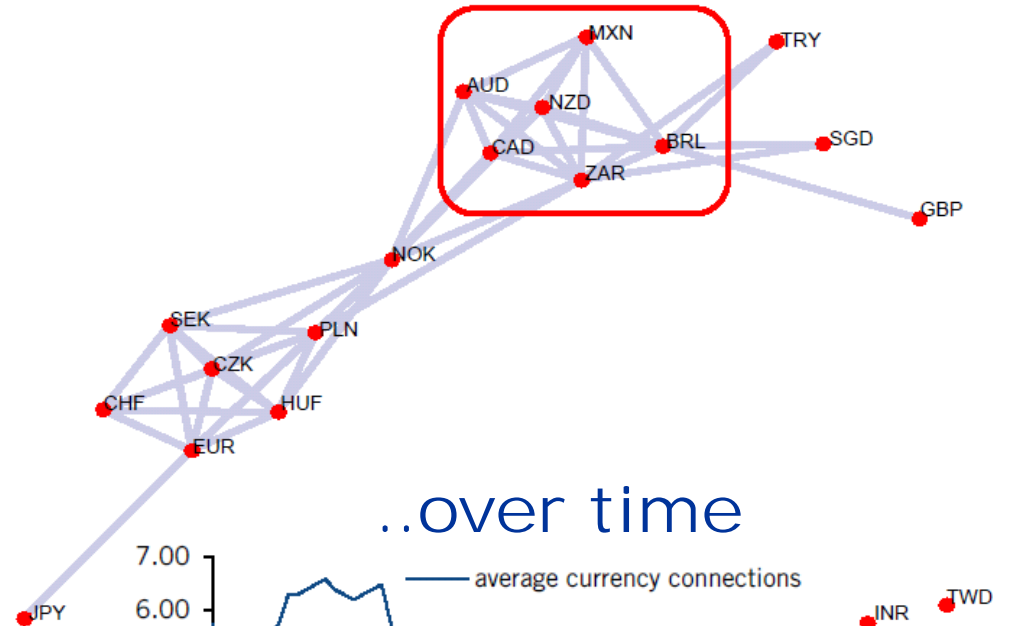
State Street's relationship analysis within FX market

How connected are currencies...

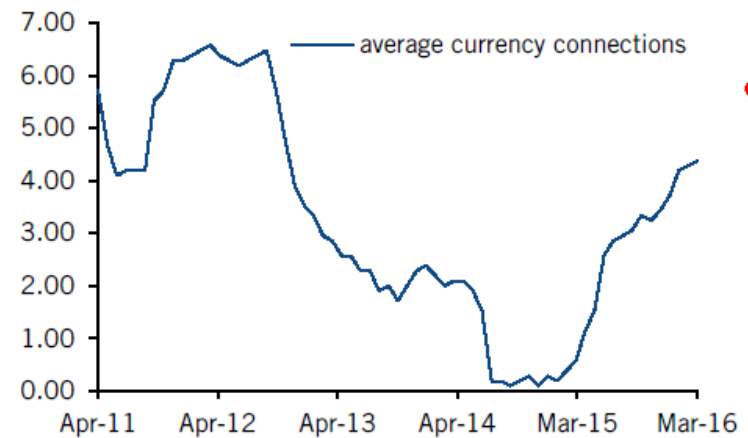
..1 year ago



..this year



..over time

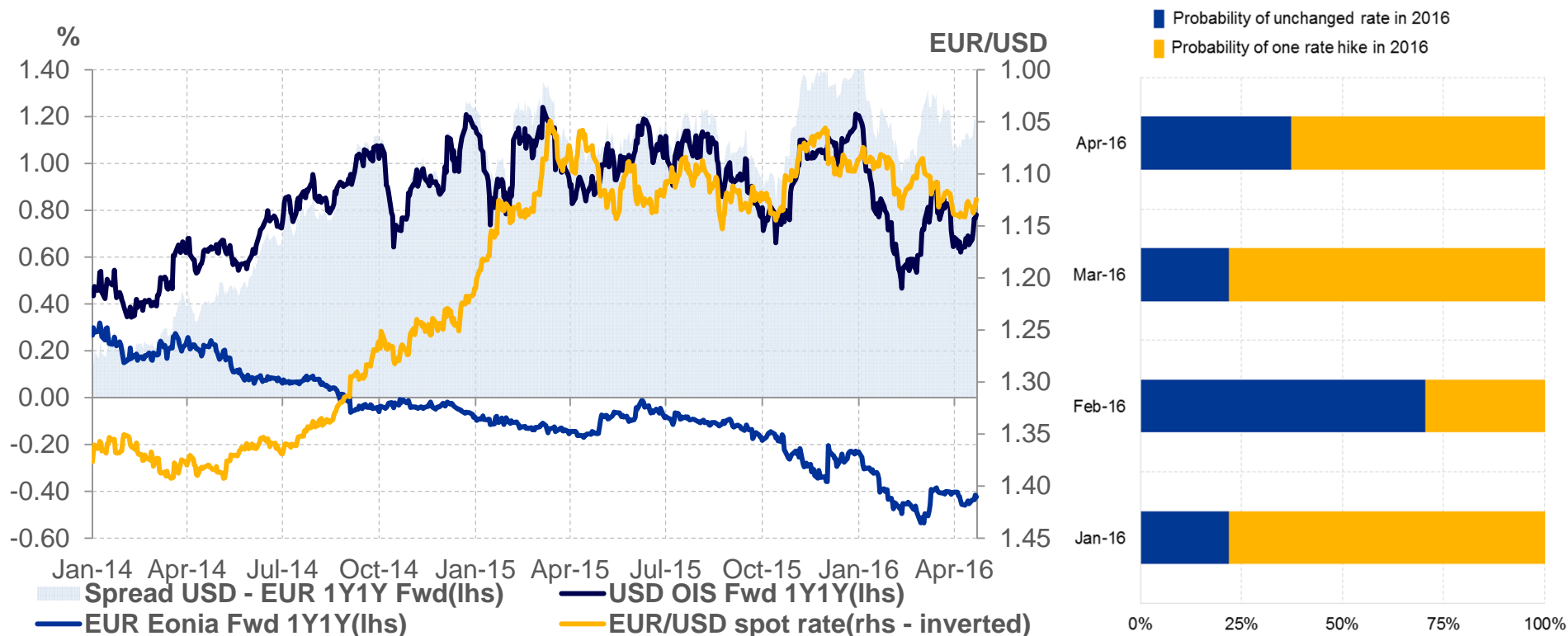


Source: State Street Global Markets 'Global Strategy Weekly'

Note: base currency US dollar

Policy divergence between the Fed and the ECB

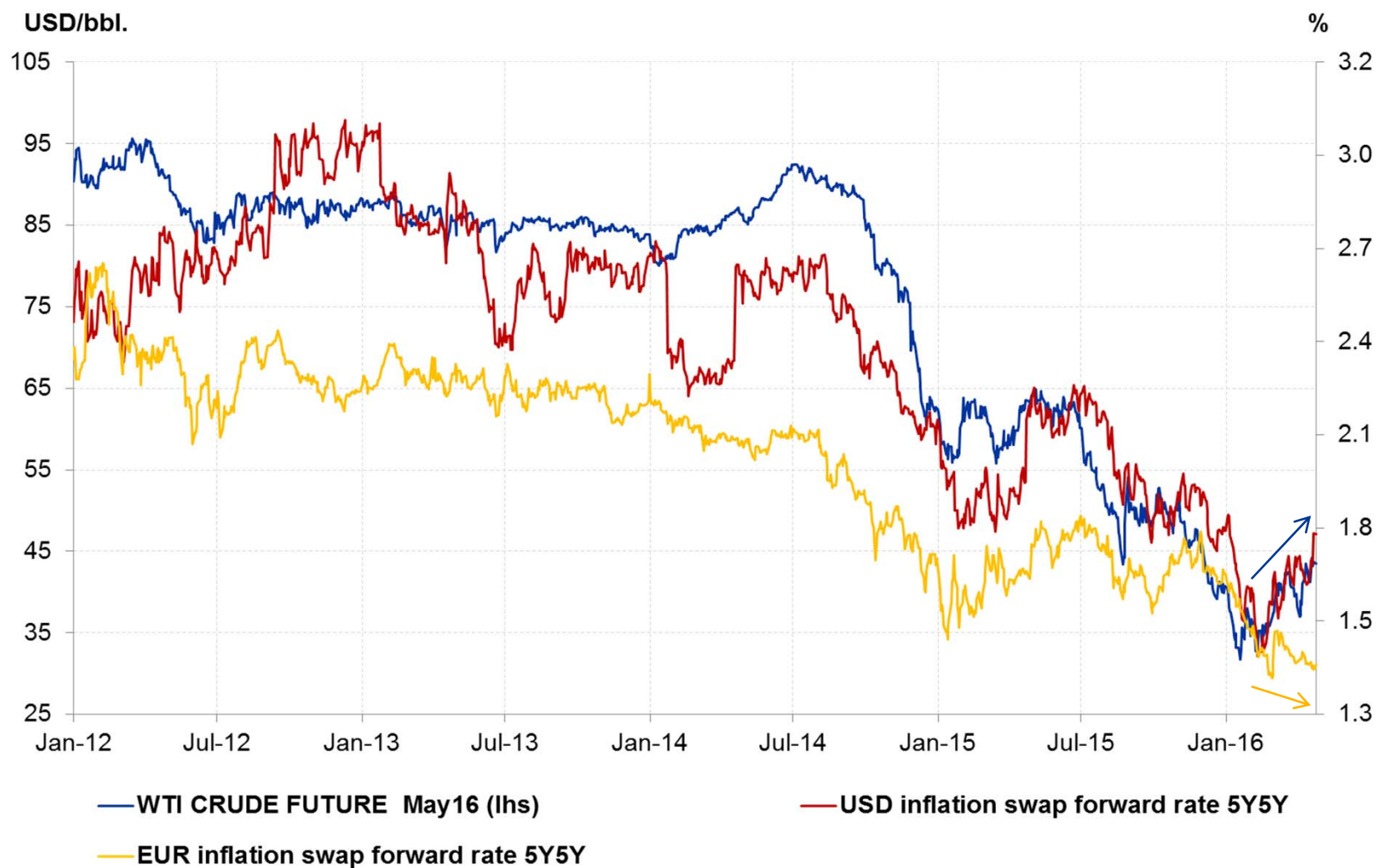
Are investors revisiting the topic of policy divergence?



Source: Bloomberg LP, ECB

Inflation expectations in the US and euro area

Will inflation expectations between the US and the euro area continue to diverge?

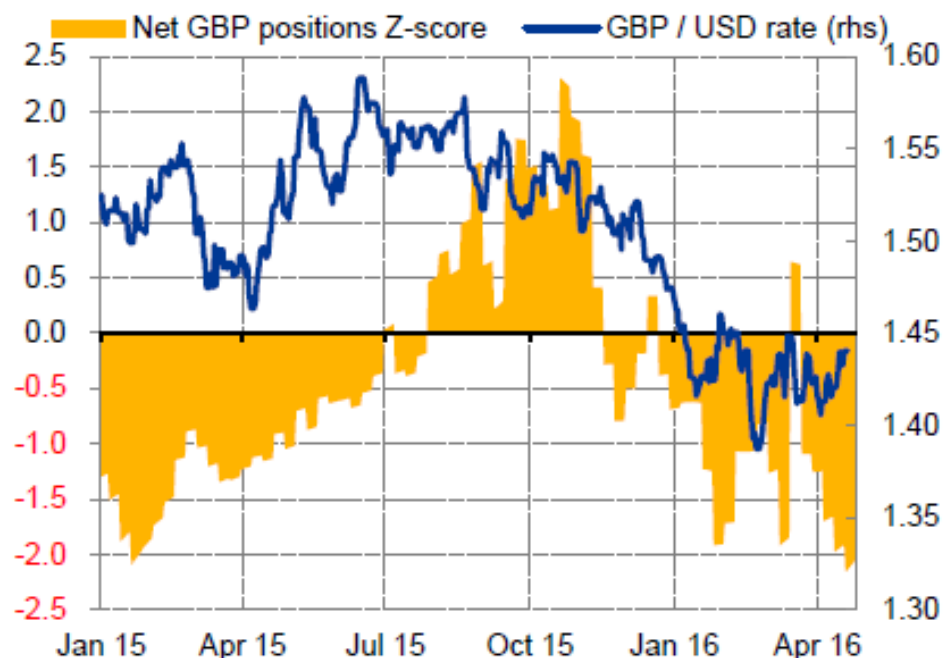


Source: Bloomberg LP

Uncertainty remains elevated ahead of the UK – EU referendum

Sterling currency pairs indicate implied uncertainty even though fears moderated slightly

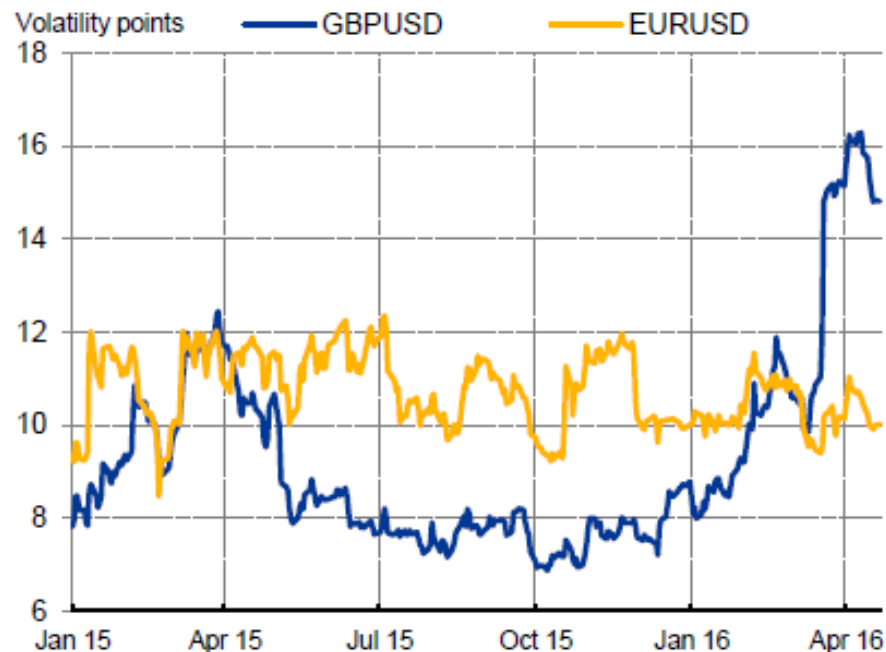
GBP/USD and non-commercial positions



Source: CFTC & Bloomberg

Note: GBP/USD exchange rate and CFTC non-commercial futures positions in GBP/USD. Z-score assumes a gaussian distribution over a 1y horizon.

GBPUSD and EURUSD 3m volatility

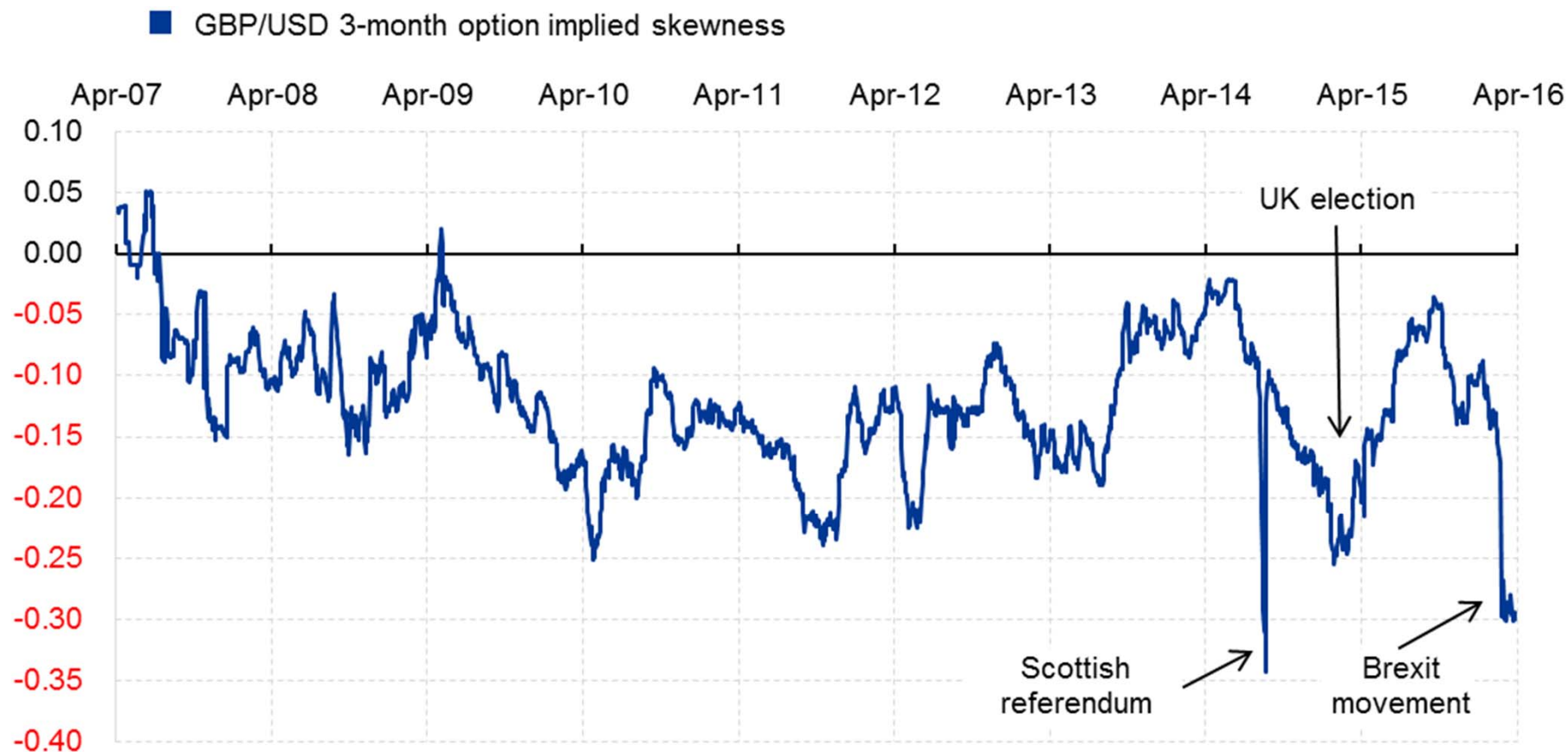


Source: Bloomberg & ECB

Note: The chart shows the 3-month volatility of ATM FX options of GBP/USD and EUR/USD.

Uncertainty remains elevated ahead of the UK – EU referendum

Exchange rate expectations skewed to GBP depreciation – more to come?



Source: Bloomberg LP

Notes: Implied skewness calculation is based on the 3-month 25 delta risk reversal of GBP/USD currency option.