



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Market review

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International Policy Analysis

FXCG, 23 November 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.

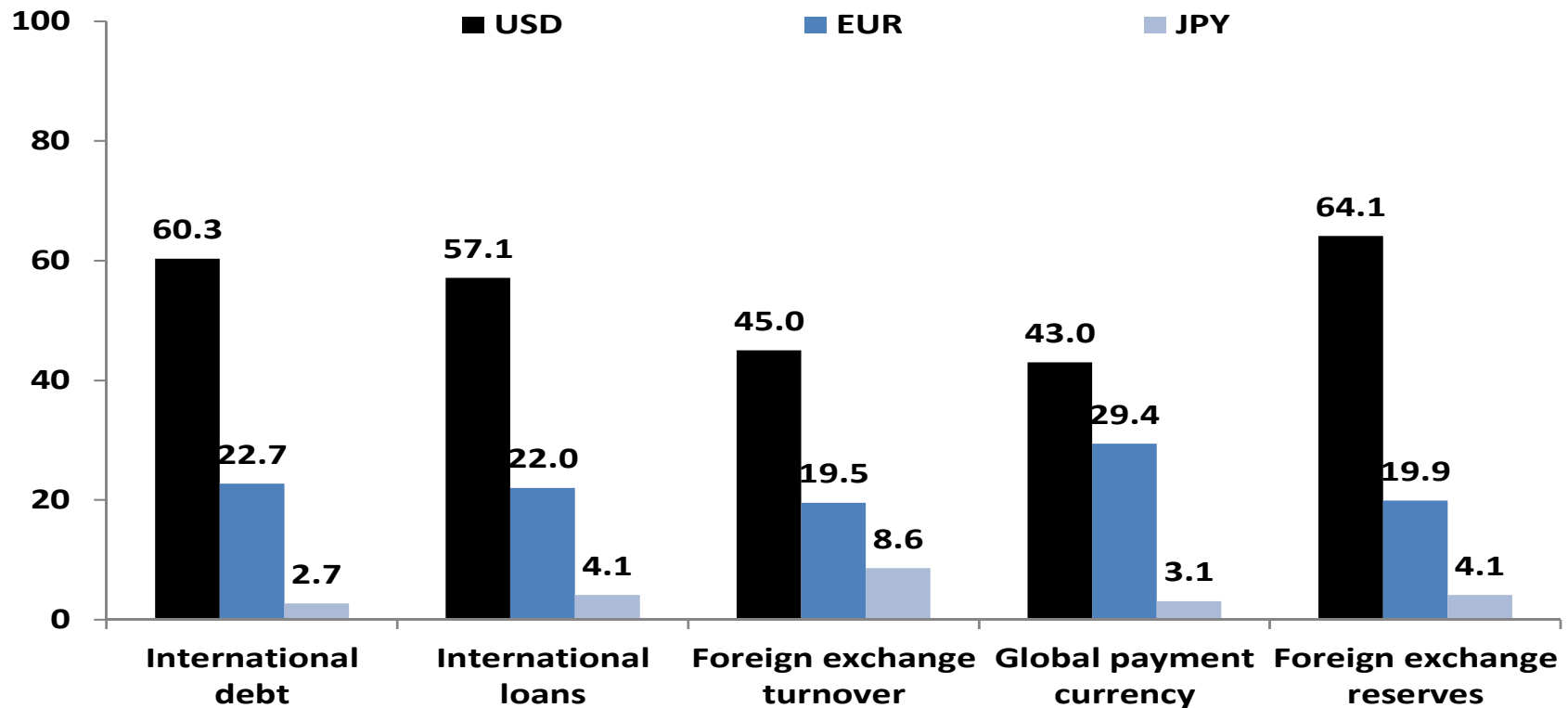
1. Market Structure

- International role of the euro - 2016 interim report
- BIS triennial survey – Headline results

2. Market developments following US election

Euro remained second most important currency

Euro remains second most important currency in international monetary system (percent of total)



Sources: BIS, IMF, SWIFT, CLS and ECB calculations.

Notes: A comparison of selected international currencies. Data as at end-2015 or latest available.

Share of euro declined slightly across number of indicators

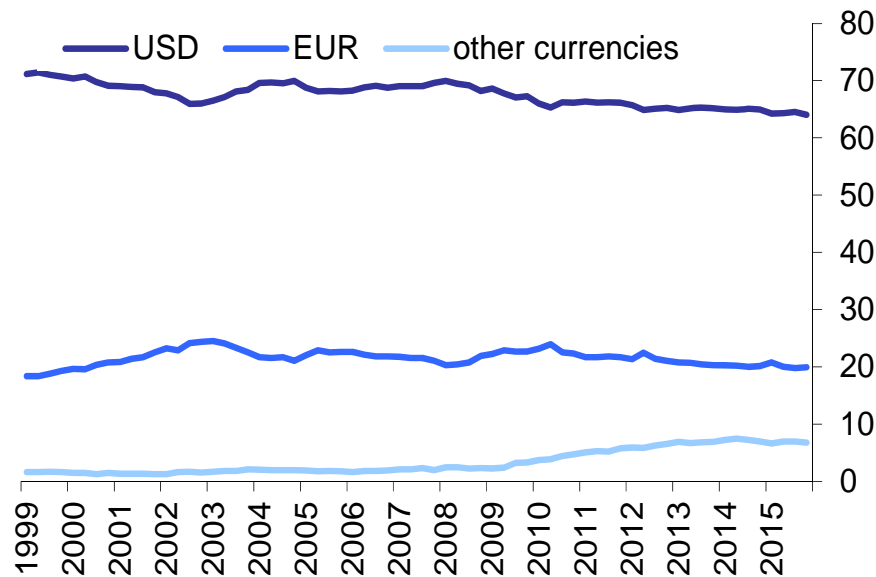
Indicator	Share of the euro (percentages, unless otherwise indicated)		
	Latest	Comparison period	Difference (percentage points)
Stock of global FX reserves (known currency composition)	19.9	20.5	-0.6
International debt (stock, narrow measure)	22.7	21.6	1.1
International loans (stock)	21.9	21.6	0.3
International deposits (stock)	24.8	23.5	1.3
FX debt issuance	21.9	32.4	-10.5
Cross-border loan issuance	21.3	28.0	-6.7
Daily FX trading (settled by CLS)	37.6	38.5	-0.9
FX loans in CESEE countries	86.1	81.9	4.2
FX deposits in CESEE countries	82.3	83.9	-1.6
Invoicing of goods exported from the EA	58.2	58.9	-0.7
Invoicing of goods imported to the EA	48.1	48.2	-0.1
Foreign holdings of euro area debt denominated in euro	19.3	20.3	-1.0

Sources: BIS, Dealogic, IMF, national sources and ECB calculations.⁴

Trend towards greater multipolarity in intern. monetary system

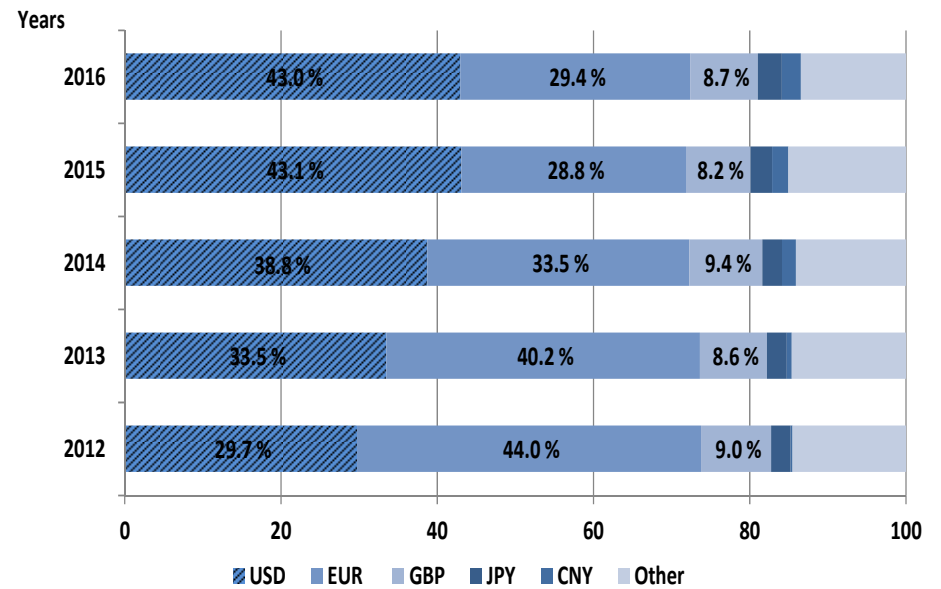
Euro's share in foreign exchange reserves declined in parallel with US dollar

(per cent, at constant end-2015 exchange rates)



Greater multipolarity in the currency composition of global payments

(per cent, at current exchange rates)



Sources: IMF and ECB calculations.

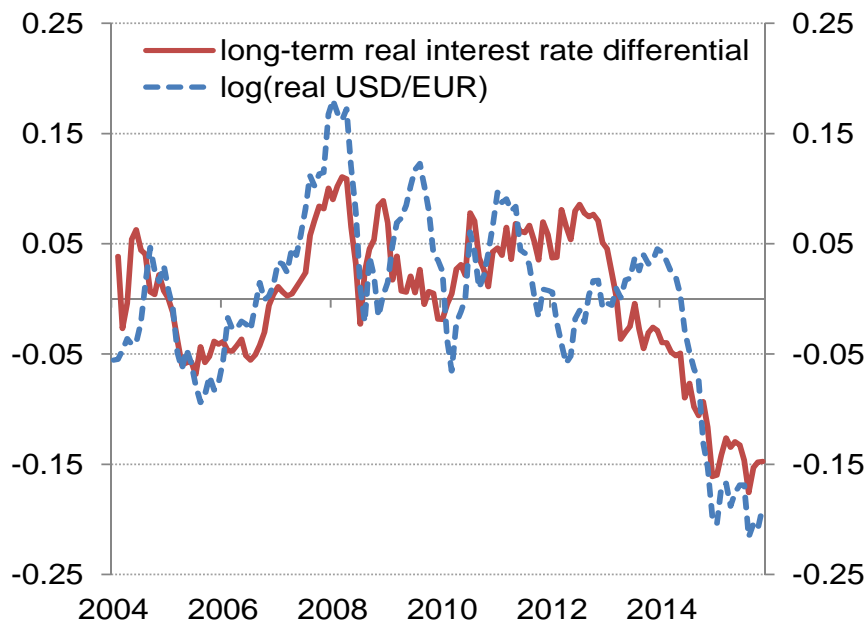
Notes: Currency composition of global foreign exchange reserves. The latest data are for the final quarter of 2015.

Source: SWIFT.

Notes: Inbound plus outbound payments. Based on value. Data for each year refer to the end of January.

Monetary policy expectations major driver of FX movements

Movements in USD/EUR largely explained by fluctuations in long-term real interest rate differentials

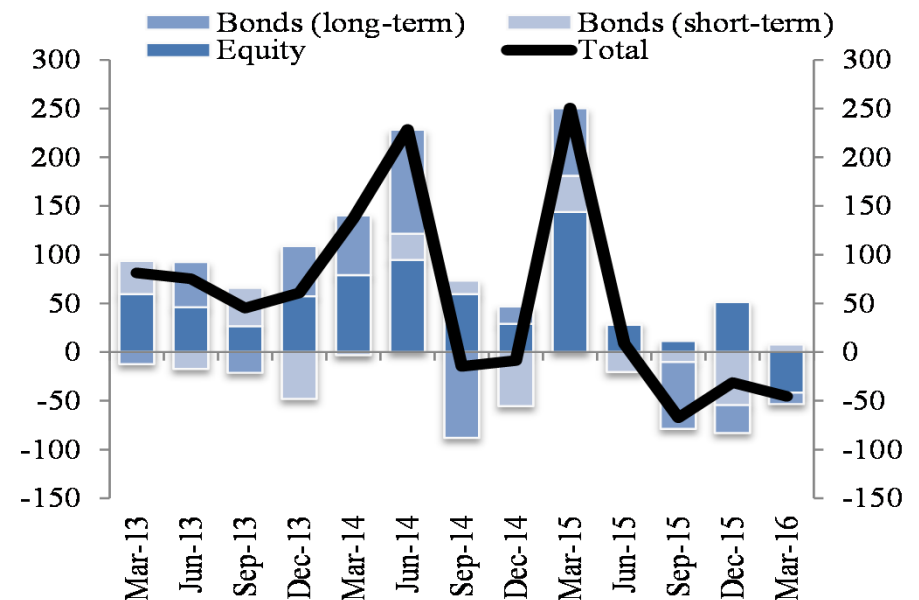


Sources: Bloomberg and ECB.

Notes: Real USD/EUR exchange rate and its UIP benchmark; percentage deviation from sample average. The decomposition of the real bilateral exchange rate is based on the forward solution of the risk-adjusted UIP condition.

Foreign demand for euro area debt securities declined in 2015

(in EUR billion, quarterly flows)



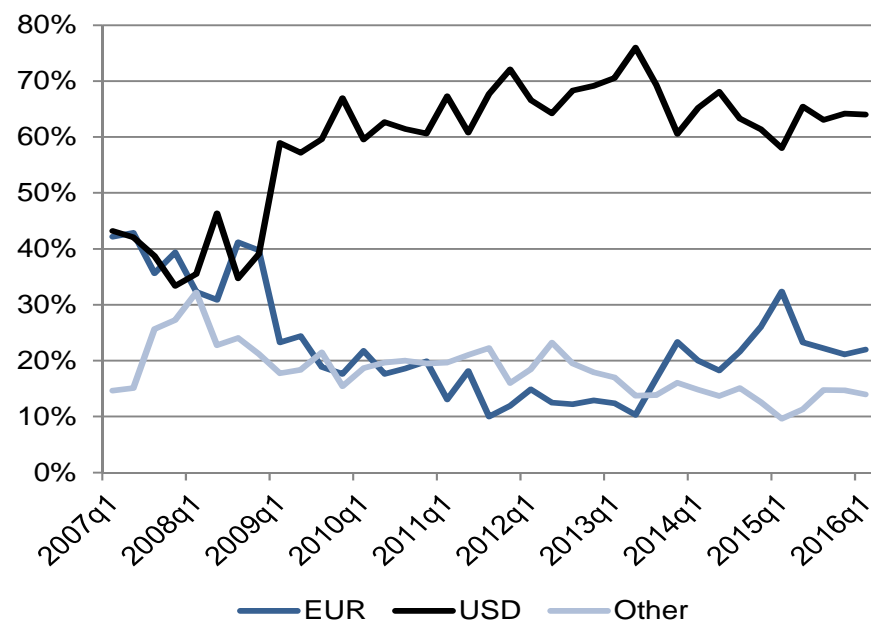
Source: ECB.

Notes: Euro area portfolio liabilities. Balance of payments of the euro area. The latest data are for January 2016.

Temporary spike in euro denominated debt issuance in 2015

Share of the euro in foreign currency-denominated debt *issuance* declined

(per cent, at current exchange rates)

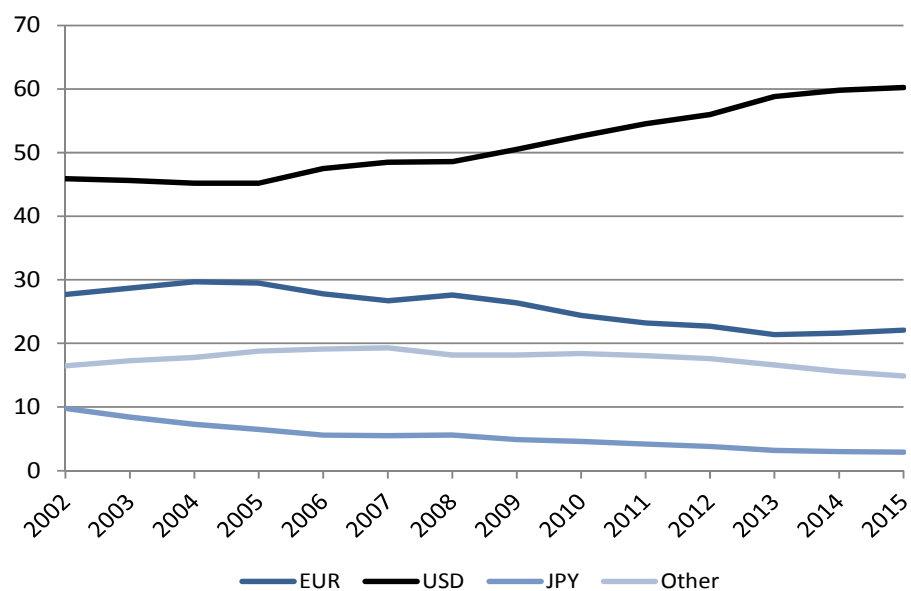


Sources: Dealogic and ECB calculations.

Notes: Currency composition of foreign currency-denominated debt issuance. The latest data are for Q1 2016

The euro's share in *outstanding* international debt markets rebounded slightly

(per cent, at constant end-2015 exchange rates)



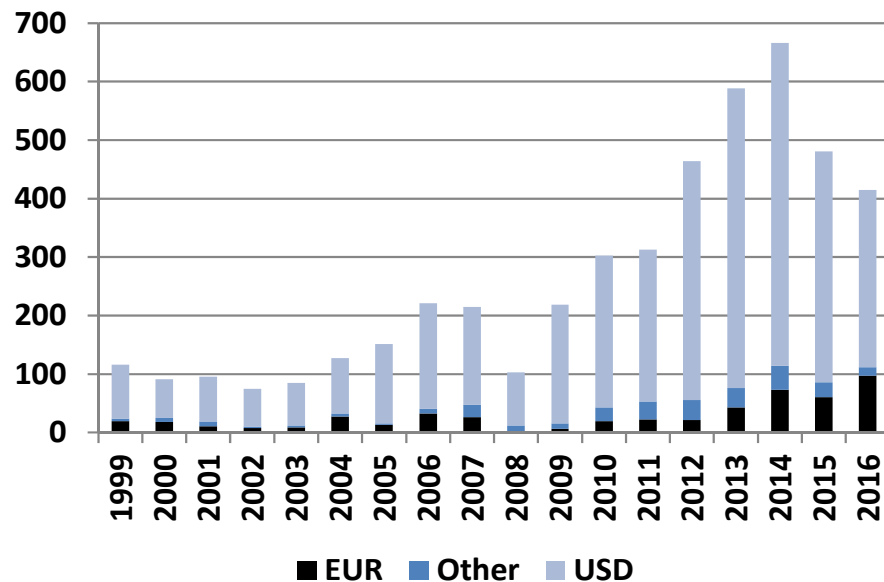
Sources: BIS and ECB calculations.

Notes: Currency composition of outstanding international debt securities. The latest data are for 2015.

EME debt issuance and lower funding costs drive USD issuance

Foreign-currency debt issuance in emerging market economies declined

(USD billions, at current exchange rates)

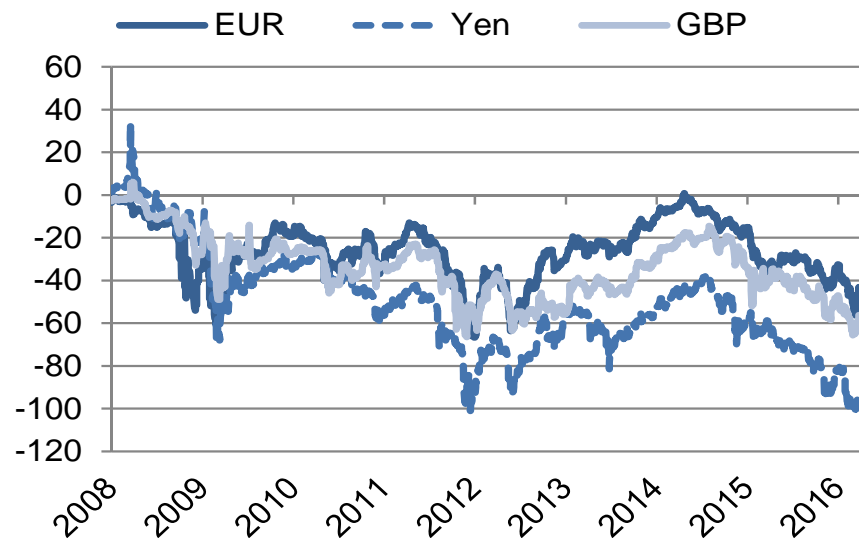


Sources: Dealogic and ECB calculations.

Notes: The data for 2016 are based on data up to Q1 2016. Volumes for 2016 are annualised.

Cost of international debt issuance in US dollar remained favourable

(five-year cross-currency basis swap against US dollar, in basis points)



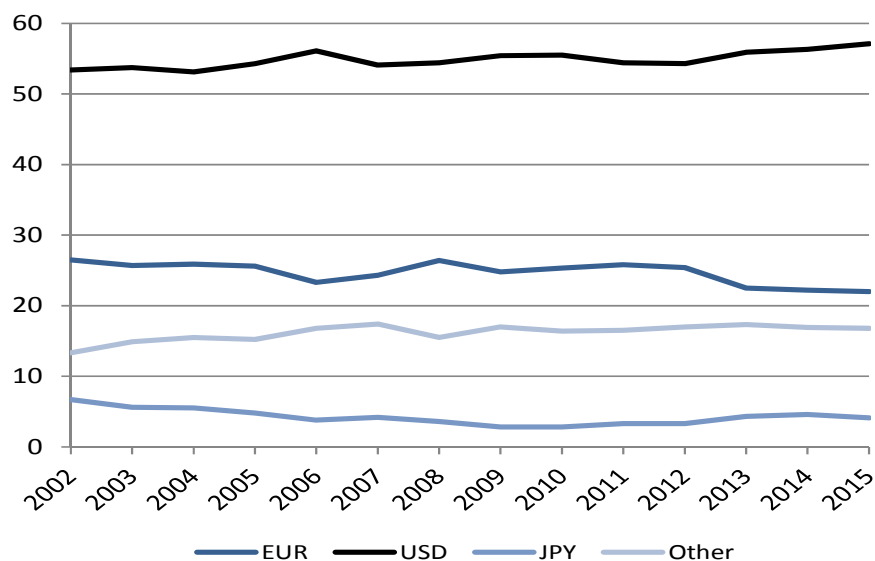
Source: Bloomberg.

Notes: Benchmark cross-currency basis swap agreements between two parties to exchange interest payments and principals denominated in US dollars against euro, yen and sterling. Latest data are for 31 March 2016.

Euro's share broadly stable in international loan markets

Share of the euro in outstanding cross-border loans broadly stable

(per cent, at constant end-2015 exchange rates)

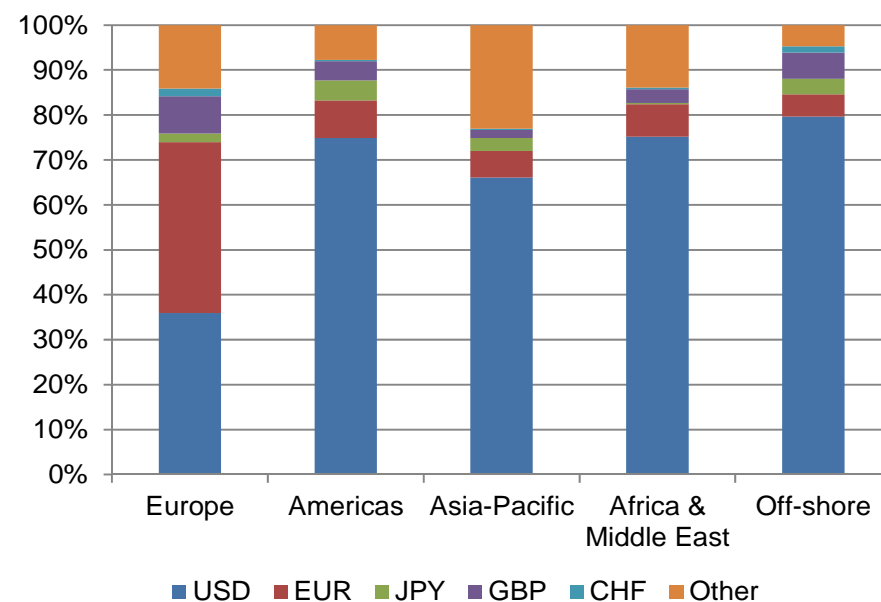


Sources: BIS and ECB calculations.

Note: Currency composition of outstanding amounts of cross-border loans. The latest data are for Q3 2015.

Large proportion of euro-denominated foreign currency cross-border loans issued in Europe

(per cent, at current exchange rates)



Source: BIS and ECB calculations.

Notes: Currency composition of foreign currency-denominated cross-border loans by region as at Q3 2015.

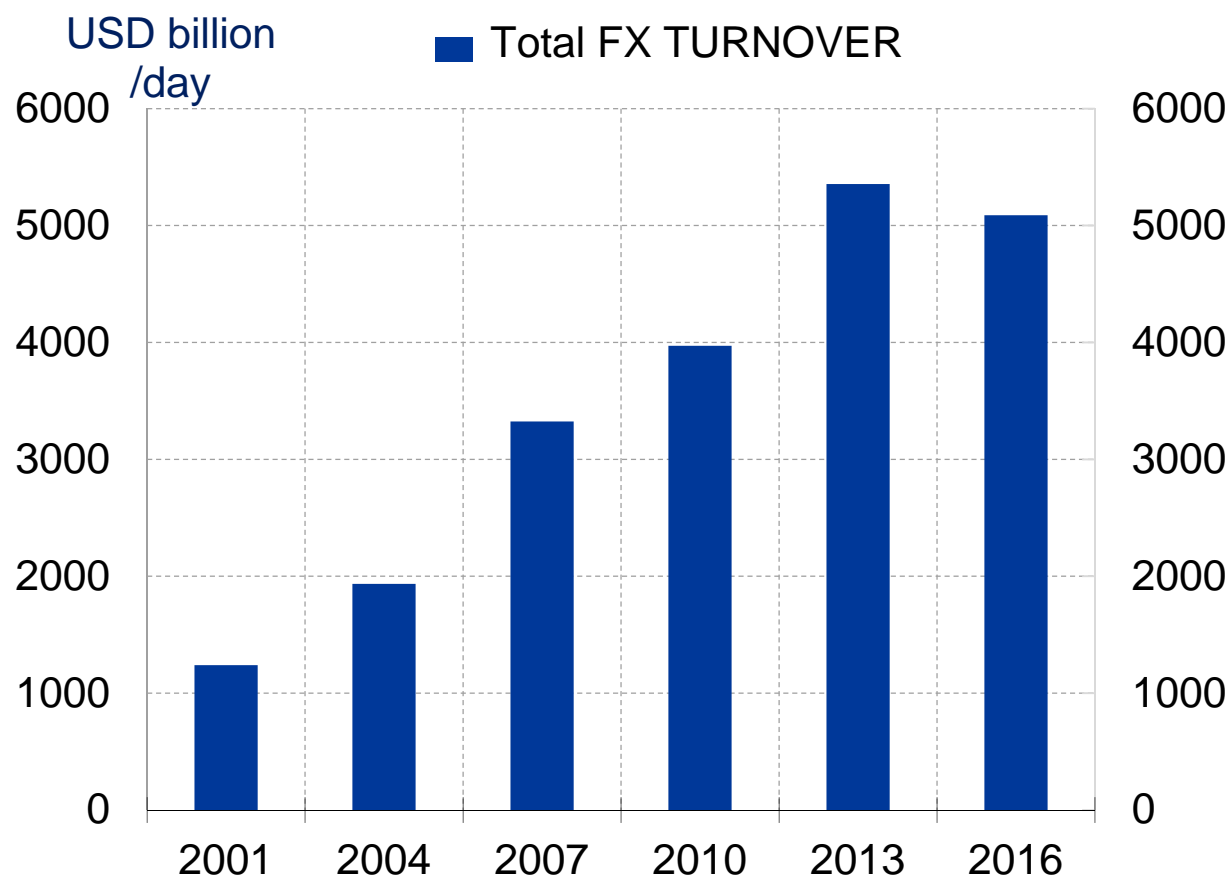
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- **BIS triennial survey – Headline results**

2. Market developments following US election

BIS triennial survey – Headline results

Average daily FX volume in April 2016 declined to USD 5.1 trillion



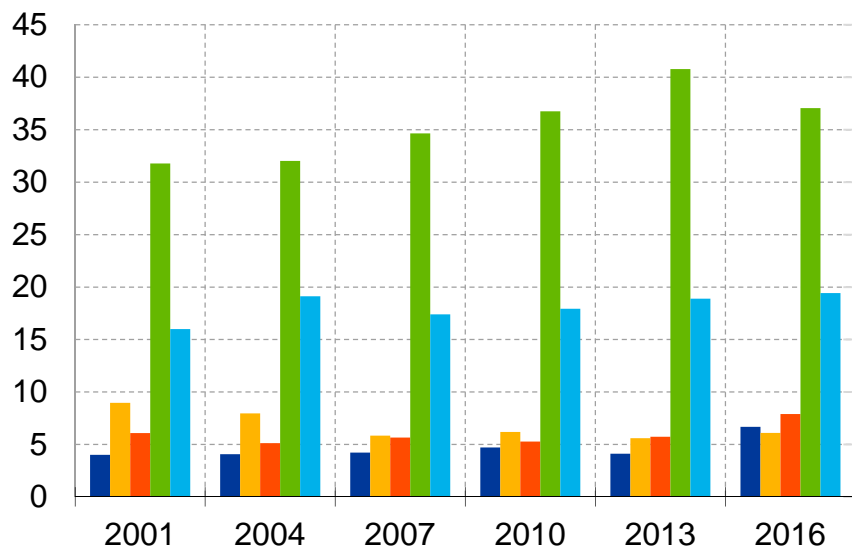
BIS Triennial Central Bank Survey – geographical location and counterparty

The geographical location of the FX market is becoming increasingly concentrated

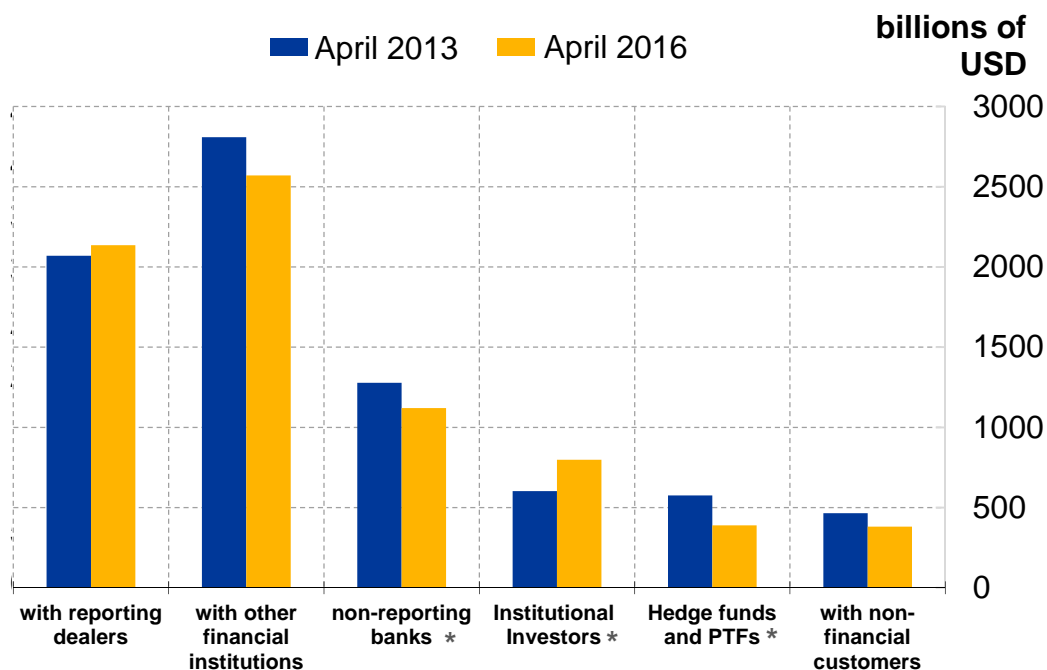
Hedge funds now account for a significantly decreased share of the FX market in stark contrast to institutional investors

% total turnover

- Hong Kong SAR
- Japan
- Singapore
- United Kingdom
- United States



■ April 2013 ■ April 2016

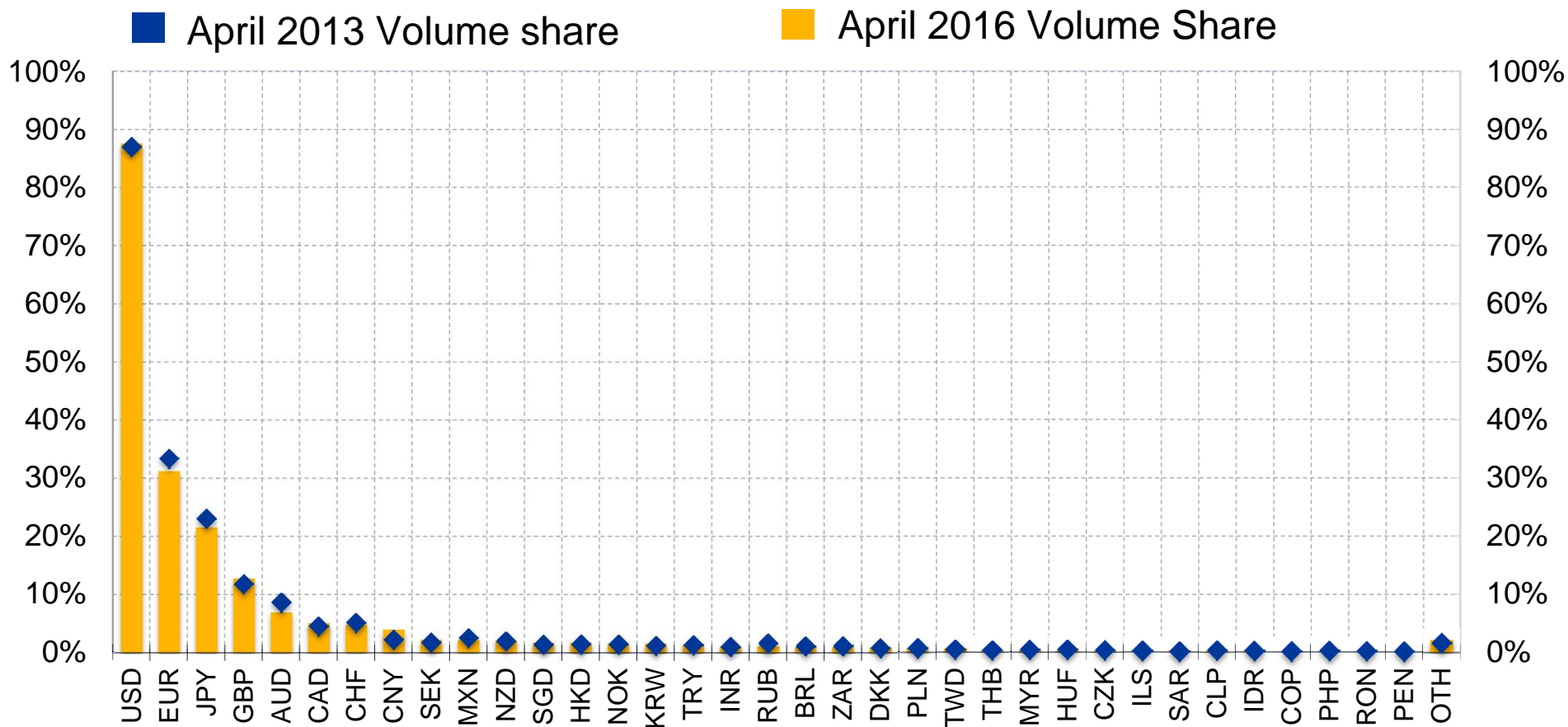


Source: BIS Triennial Central Bank Survey

Note: * breakdown of 'other financial institutions'

BIS Triennial Central Bank Survey - market share by currency

The US dollar remains the most dominant currency



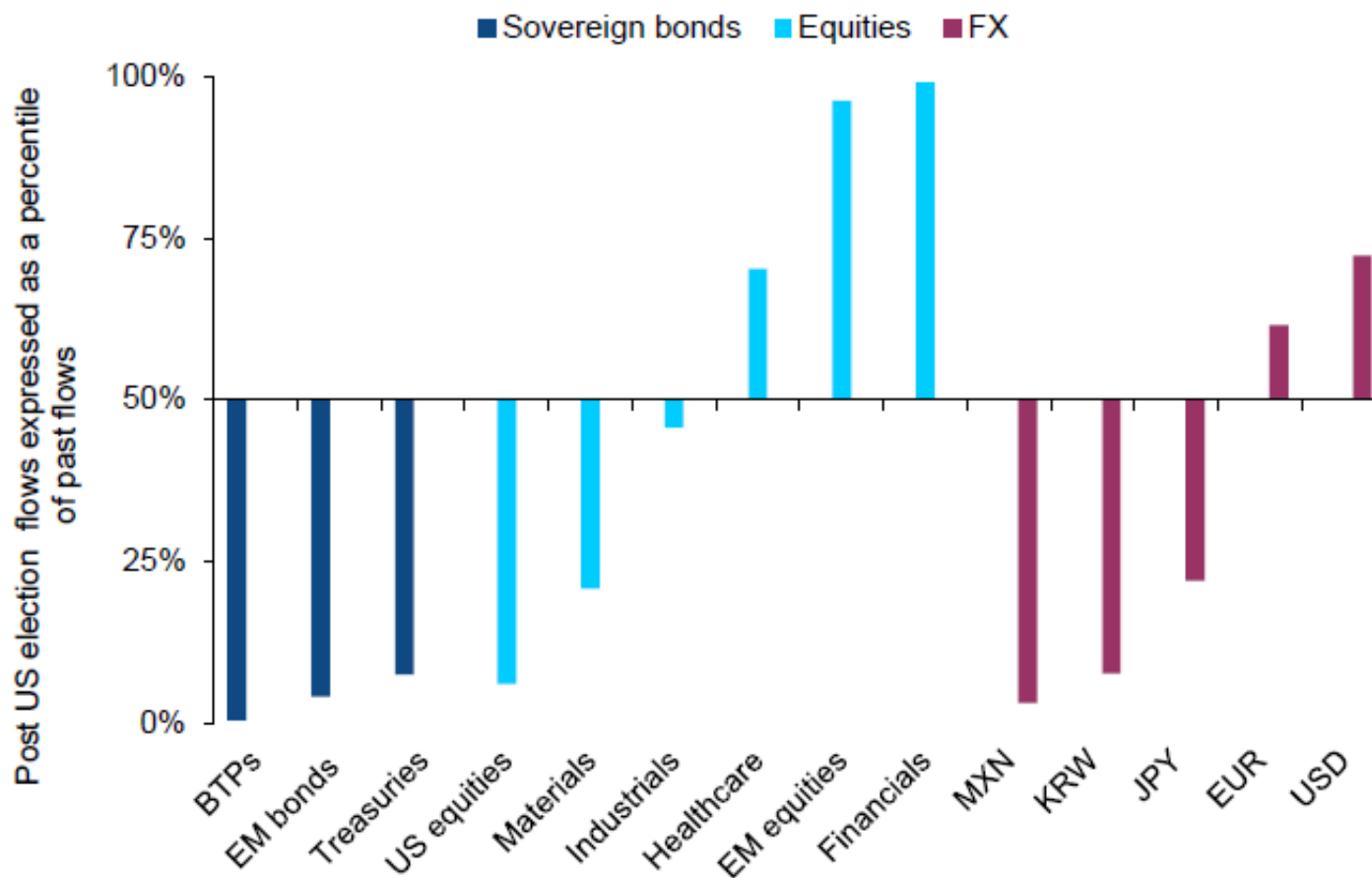
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Flows following the US election

Investor reaction to Trump, week one

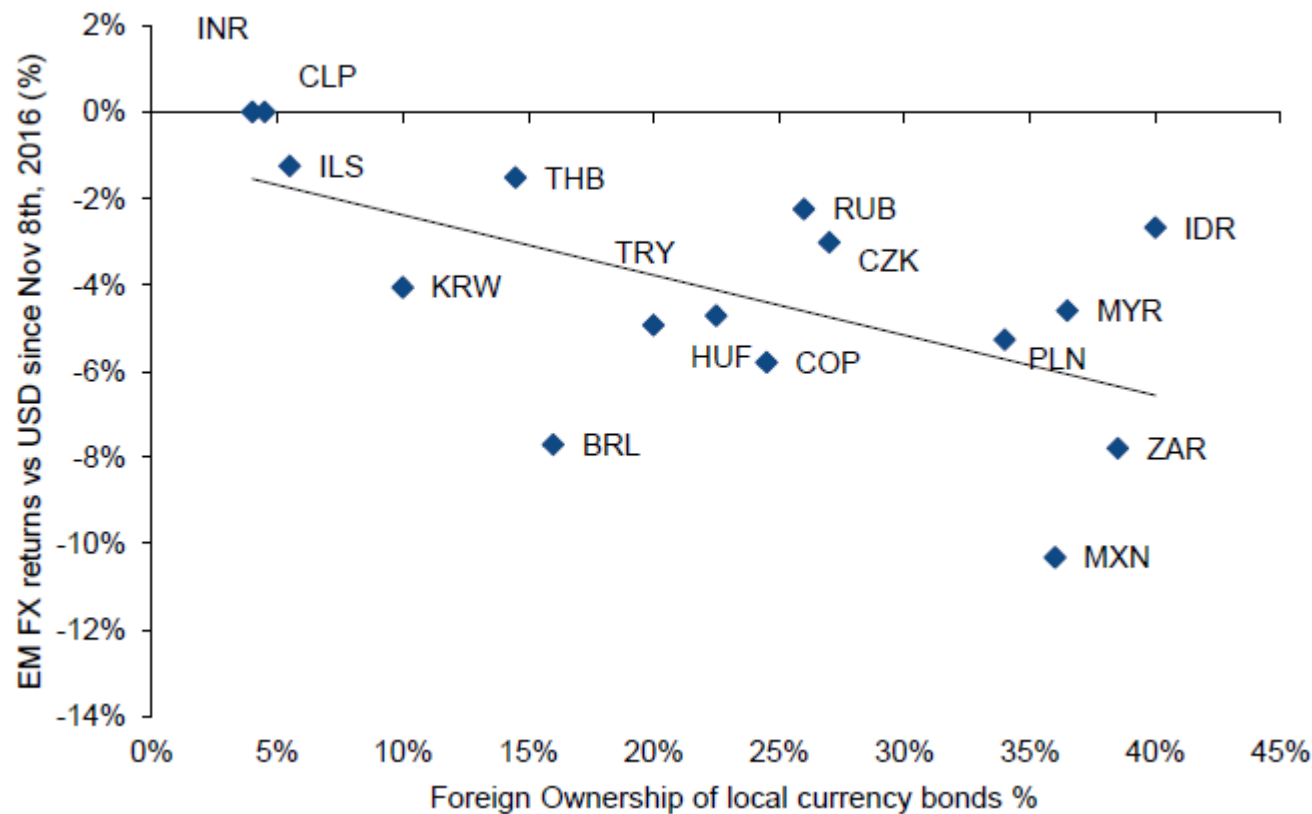


Source: State Street Global Markets, Flows between 9th -15th November

STATE STREET

Flows following the US election

EM sell off is correlated with foreign bond ownership

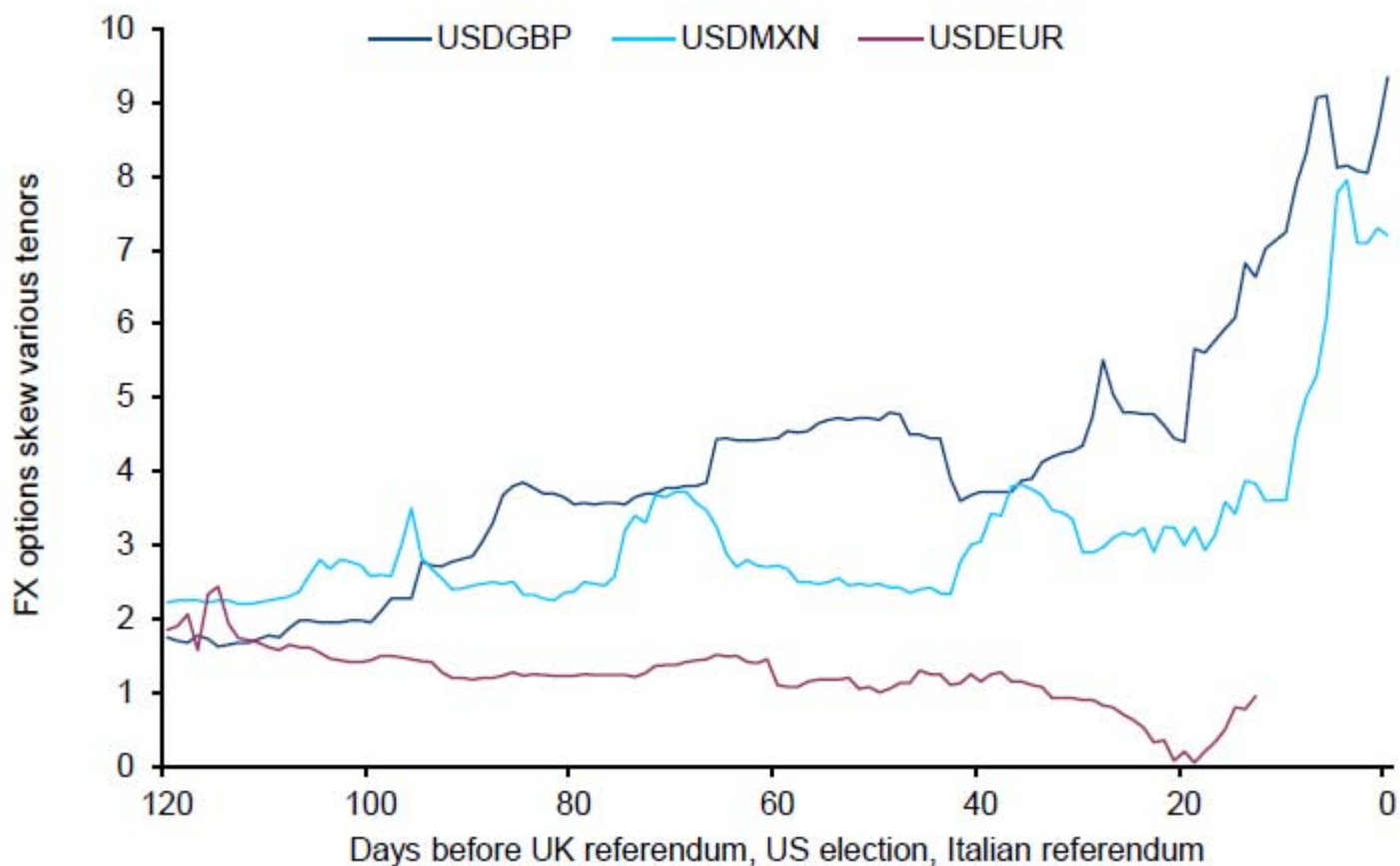


Source: Bloomberg, State Street Global Markets, Flows between 9th -15th November

STATE STREET

Political events

FX options skew ahead of key votes

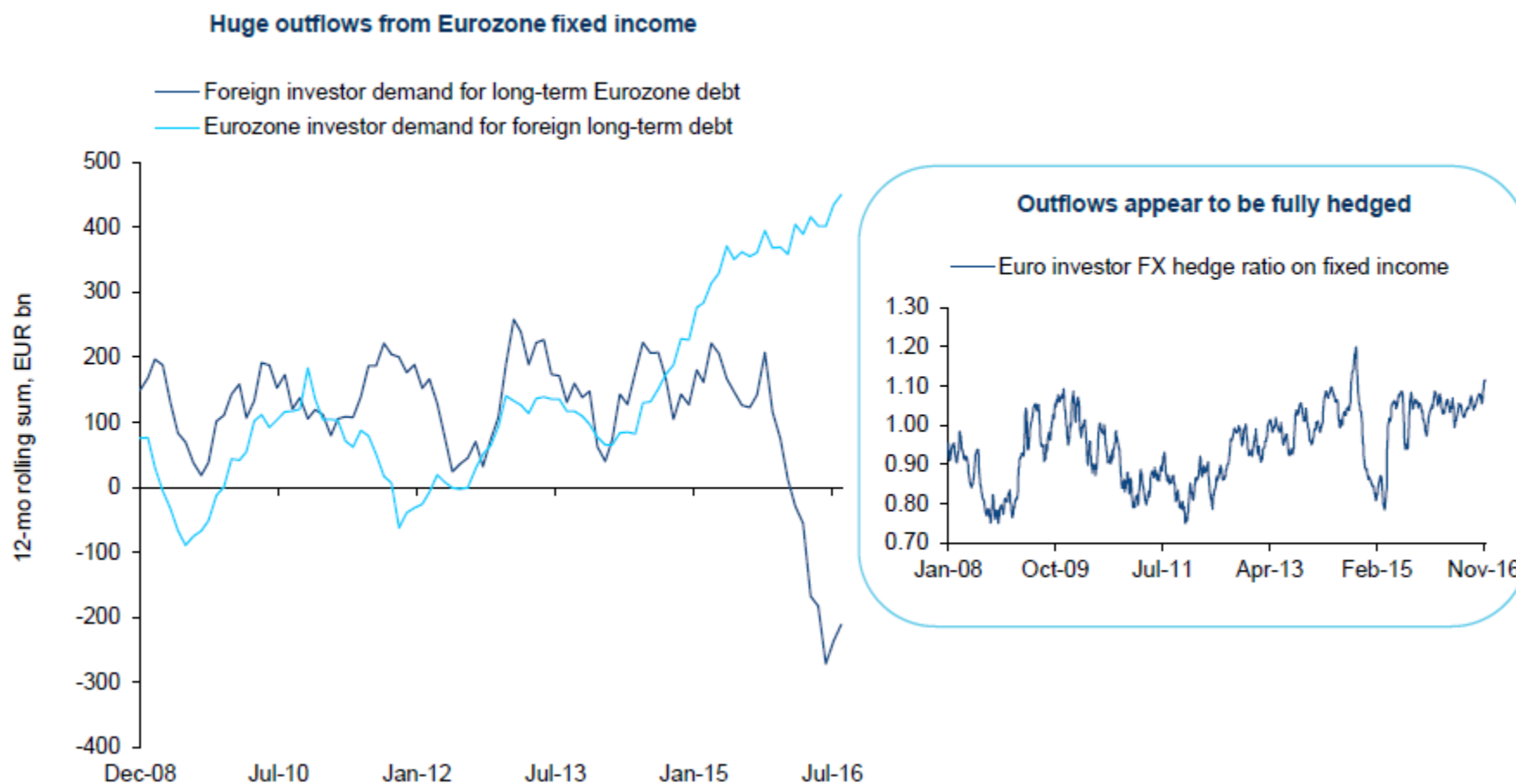


Source: State Street Global Markets, Bloomberg

STATE STREET

Euro fixed income flows and hedging

Huge outflows from euro area fixed income

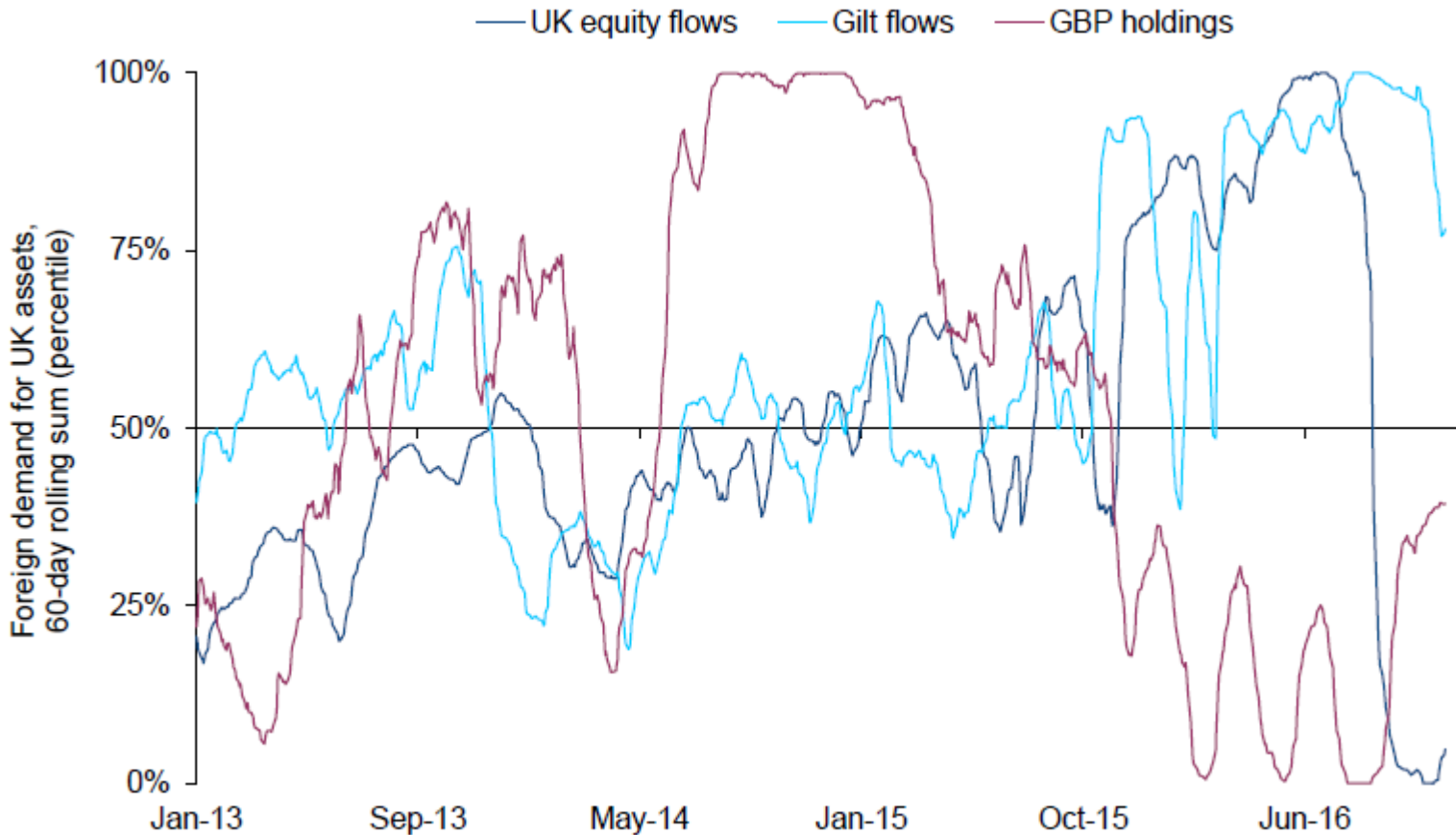


Source: State Street Global Markets, Bloomberg

STATE STREET

Tracking the behaviour of international investors around Brexit

Foreign demand for UK government bonds, equities and sterling



Source: State Street Global Markets

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