



EUROPEAN CENTRAL BANK

EUROSYSTEM

Review of FX market developments and outlook

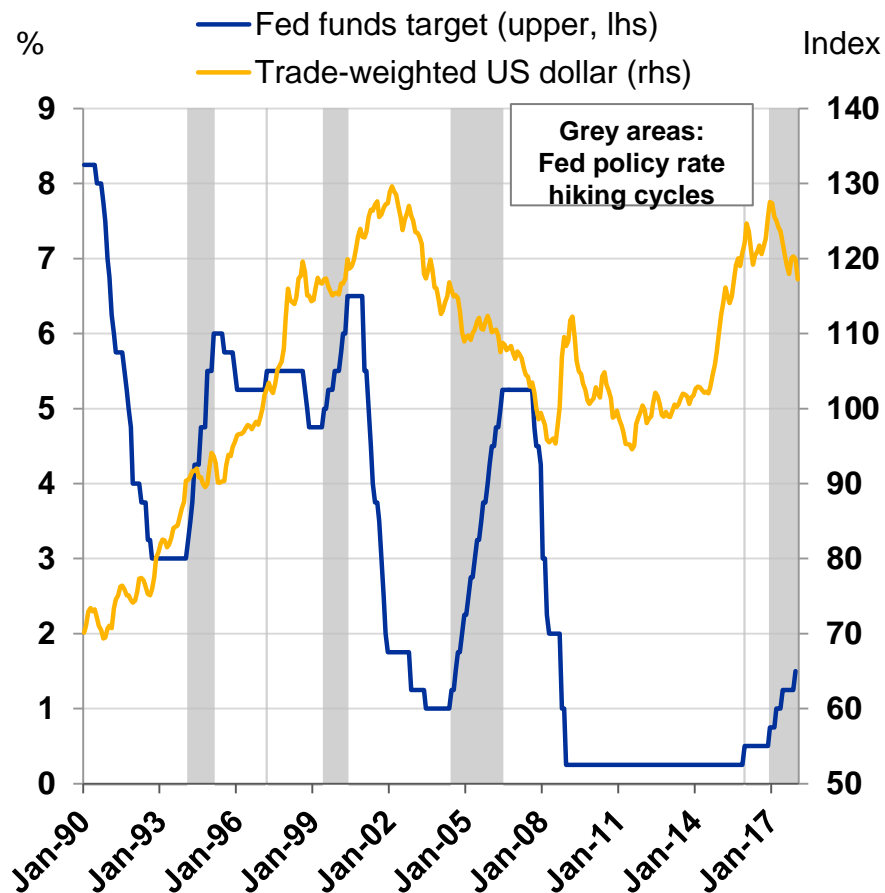
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ECB FXCG, 20 March 2018

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Euro appreciating against US dollar amid monetary policy normalisation expectations

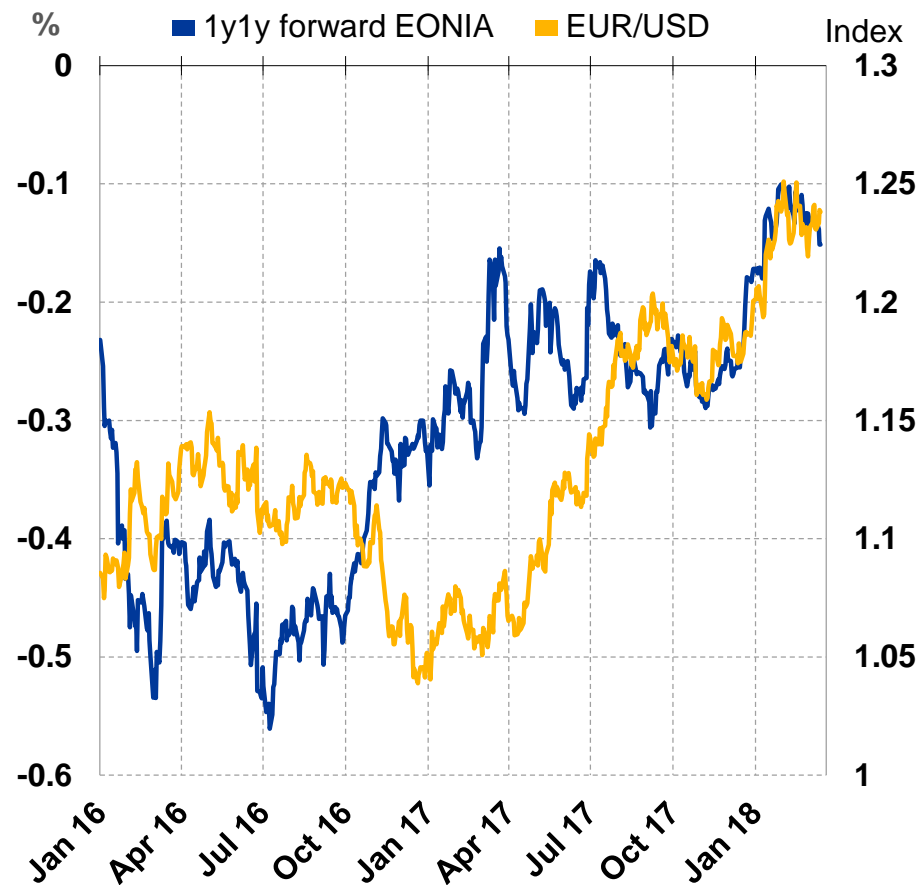
US dollar and Fed hiking cycles



Source: Federal Reserve.

Notes: Grey areas indicate Fed policy rate hiking cycles.

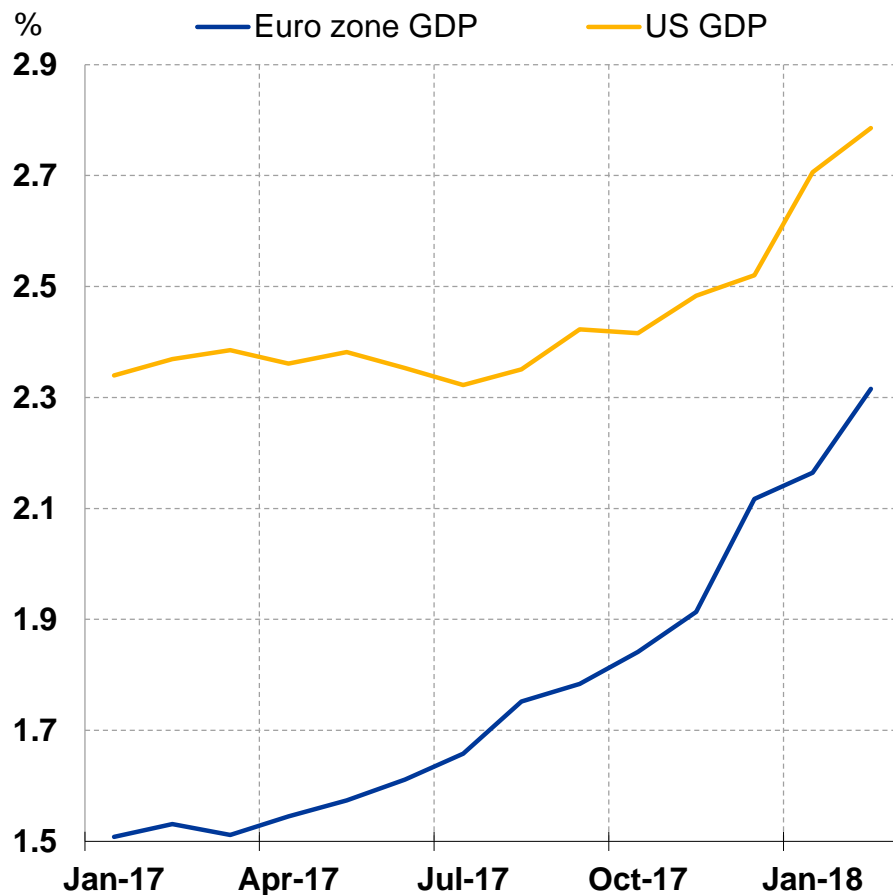
EUR/USD and euro area monetary policy expectations



Source: Bloomberg and ECB.

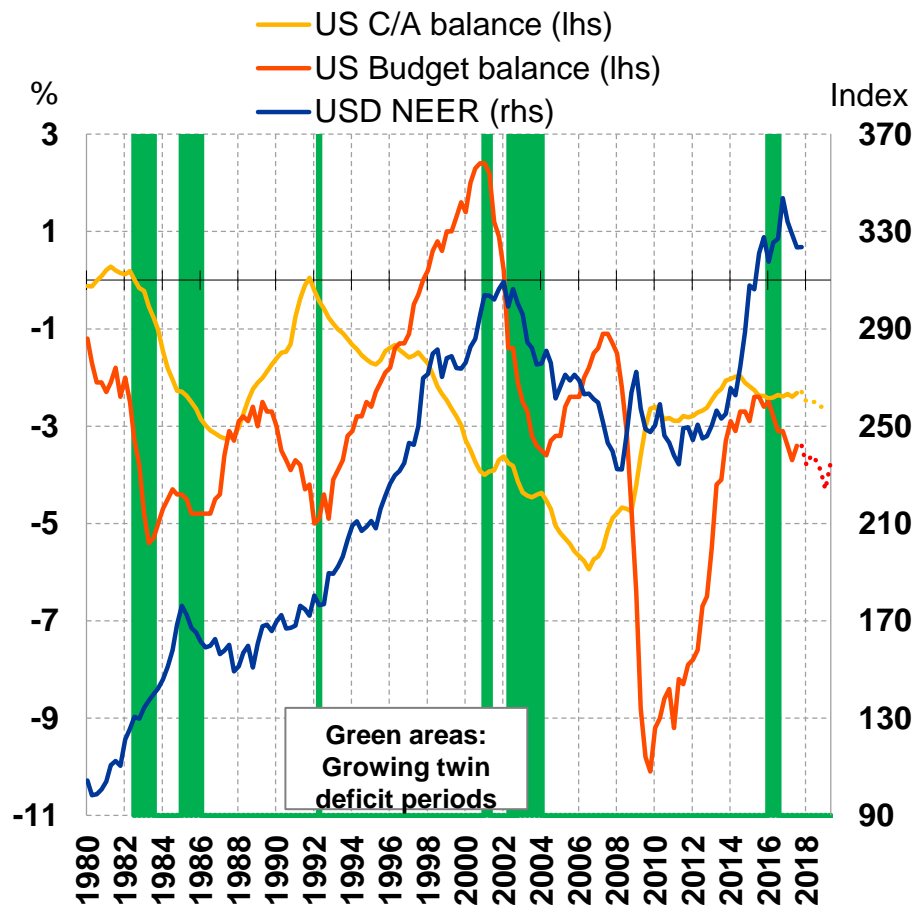
US dollar weakness may reflect a catching-up of other economies and concerns over rising US deficits

Euro area and US 2018 GDP analysts' forecasts



Source: Consensus Forecast.

USD exchange rate in periods of US twin deficits



Source: Bloomberg and ECB calculations.

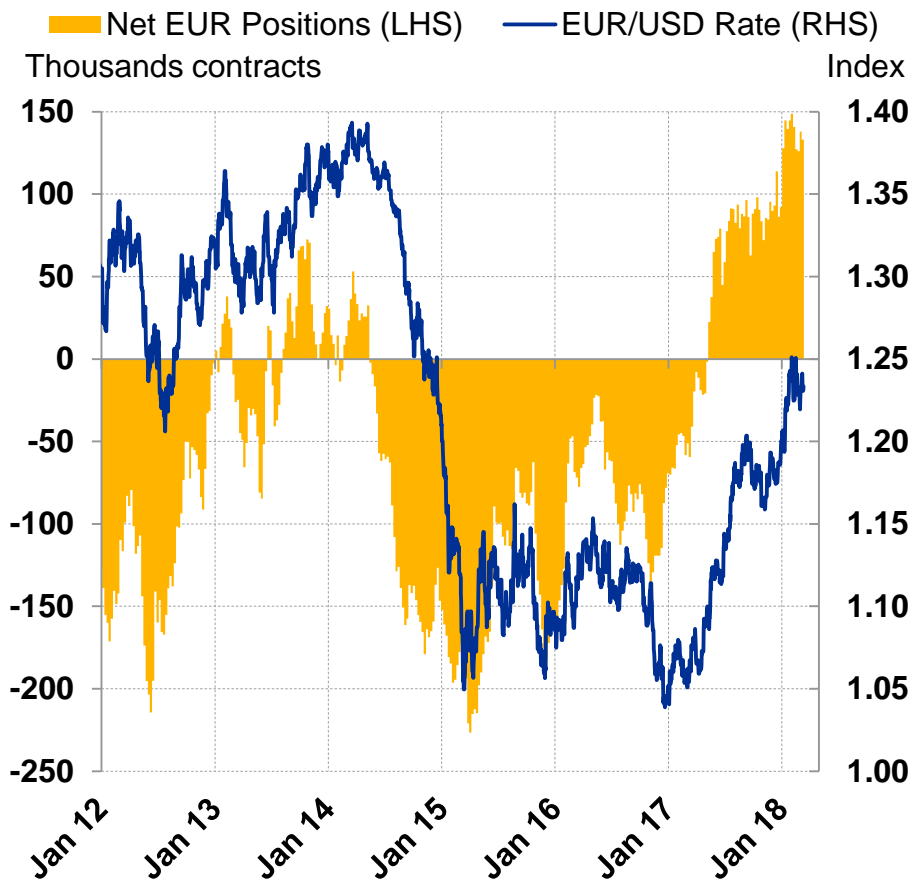
Notes: Current account and budget balance as a percentage of GDP.

Green areas indicate growing twin deficit.

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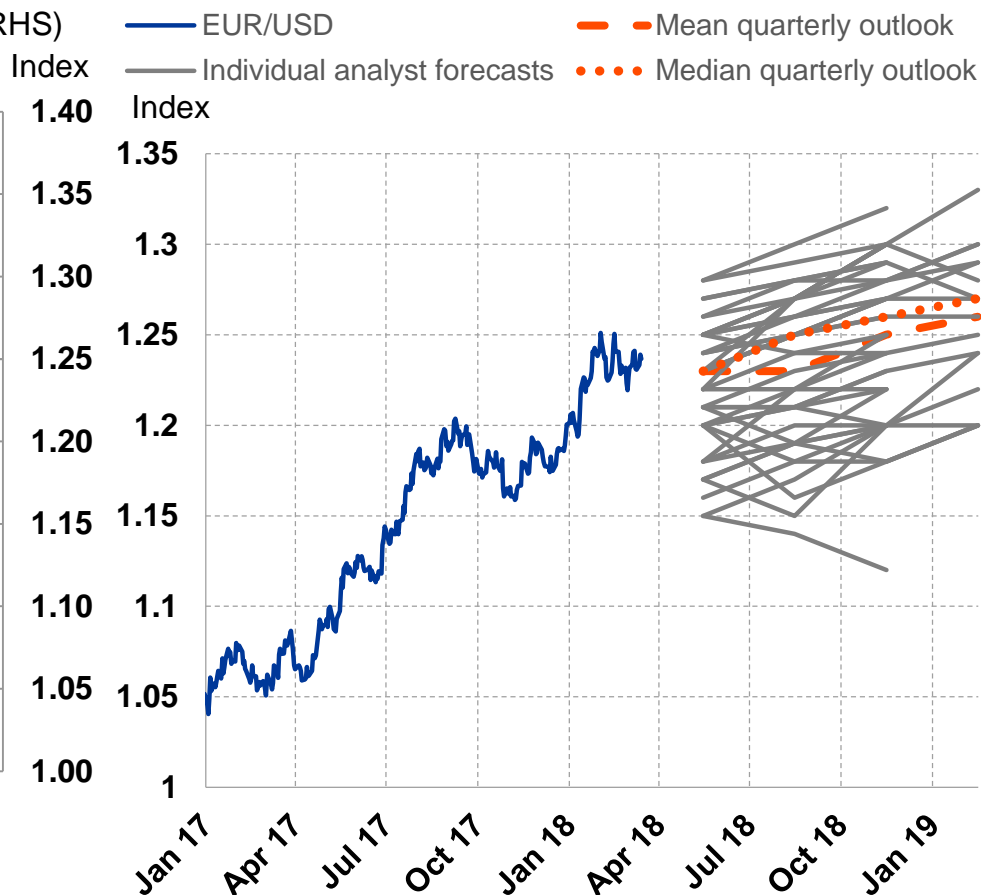
Investor positioning and analysts forecasts point to higher euro against US dollar

CFTC non-commercial positions EUR/USD



Source: CFTC

Analyst forecasts contributed to Bloomberg



Source: Bloomberg and ECB calculations.

Notes: The grey lines represent 44 quarterly analysts forecasts for Q2-18 to Q1-19 for EUR/USD contributed to Bloomberg.

British pound and Japanese yen continue appreciation trend against US dollar

Exchange rate GBP/USD



Source: Bloomberg.
Notes: weekly observations.

Exchange rate USD/JPY

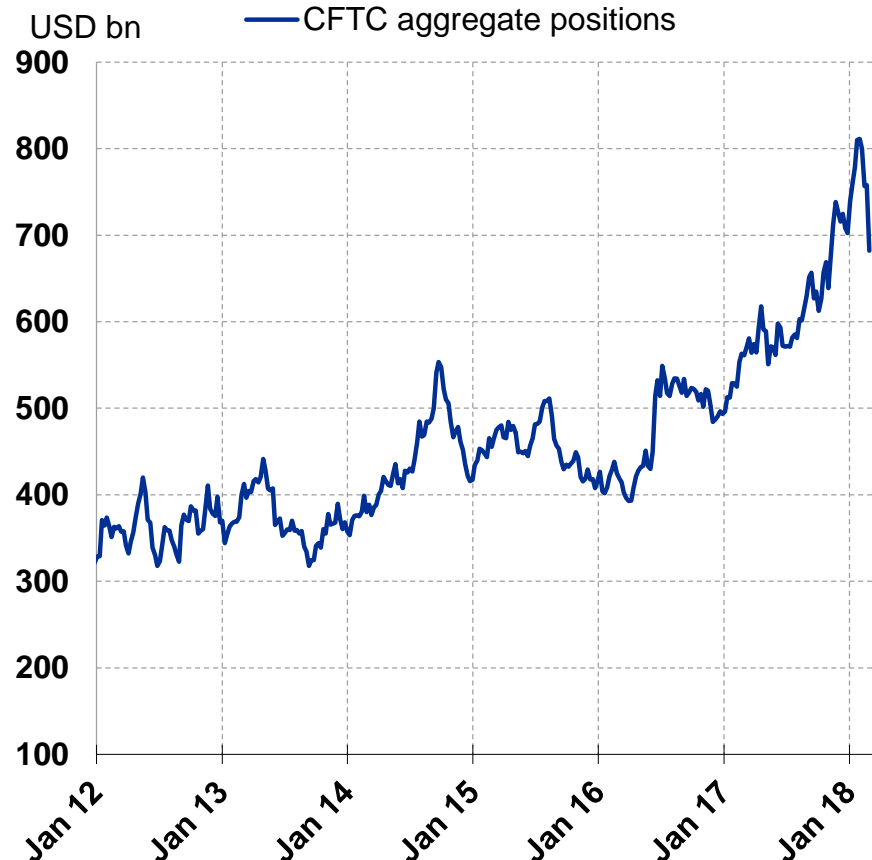
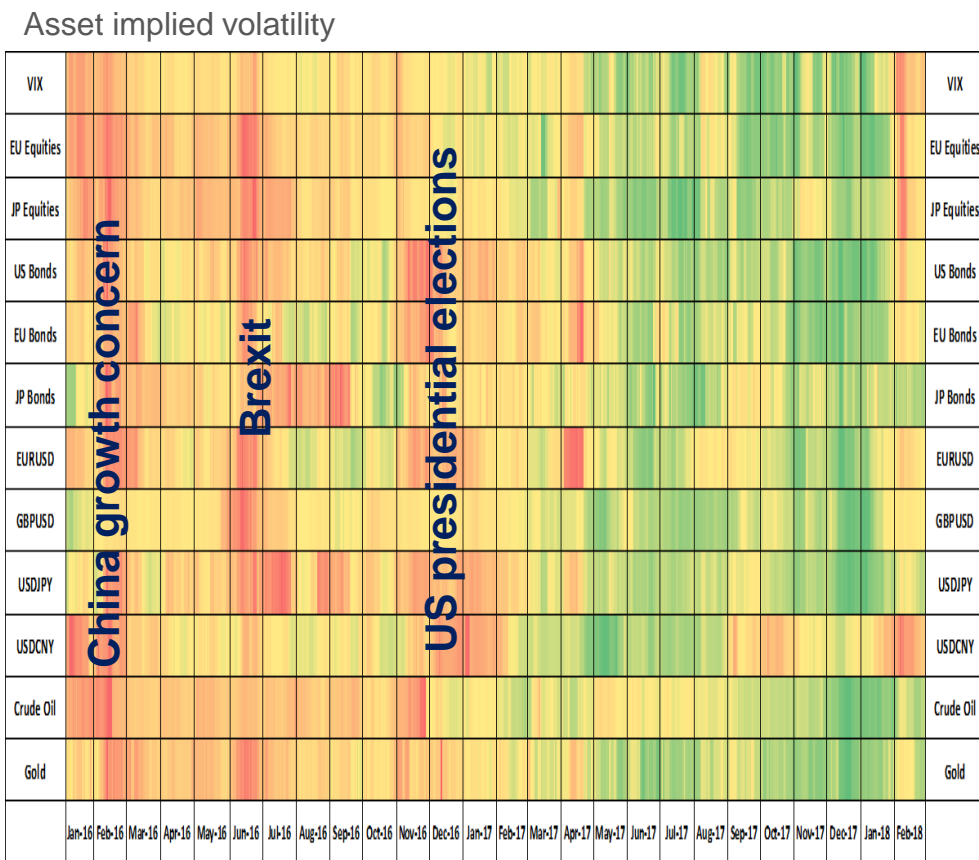


Source: Bloomberg.
Notes: weekly observations.

The recent spike in equity volatility did not spill over materially to other asset classes but reduced overall risk exposure

Implied volatility heat map

CFTC aggregate value of non-commercial positions



Source: Bloomberg and ECB calculations.

Notes: Z-scores of implied volatilities calculated using the data of the sample period between January 2016 and February 2018.

Red colours indicate higher implied volatilities compared to the average of the 2-year review period, while green colours indicate lower relative implied volatilities.

Source: Bloomberg, CFTC and ECB calculations.

Notes: Aggregate value of outstanding non-commercial futures positions in 2-year, 5-year and 10-year US Treasury notes, US Treasury bonds;

WTI light sweet crude oil, NYMEX Brent crude oil, CEI gold, CEI silver, ICE Coffee; SP 500 index, Dow Jones, Nasdaq 100, Nikkei; AUD, BRL, CAD, CHF, EUR, GBP, JPY, MXN, NZD, RUB, ZAR.

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Issues for discussion

- 1. What will be the main FX market drivers and risks in coming months?**
- 2. Why did the spike in equity market volatility not spill over more prominently to the FX market?**
- 3. Beyond market funding cost, what other factors determine bank participation to the ECB's USD tender?**
- 4. What are the drivers and implications from the recently widening USD FRA OIS spreads for banks in Europe/USA?**