

# FX OUTLOOK

ECB FXCG



NEEHAL SHAH  
Corporate & Institutional Banking

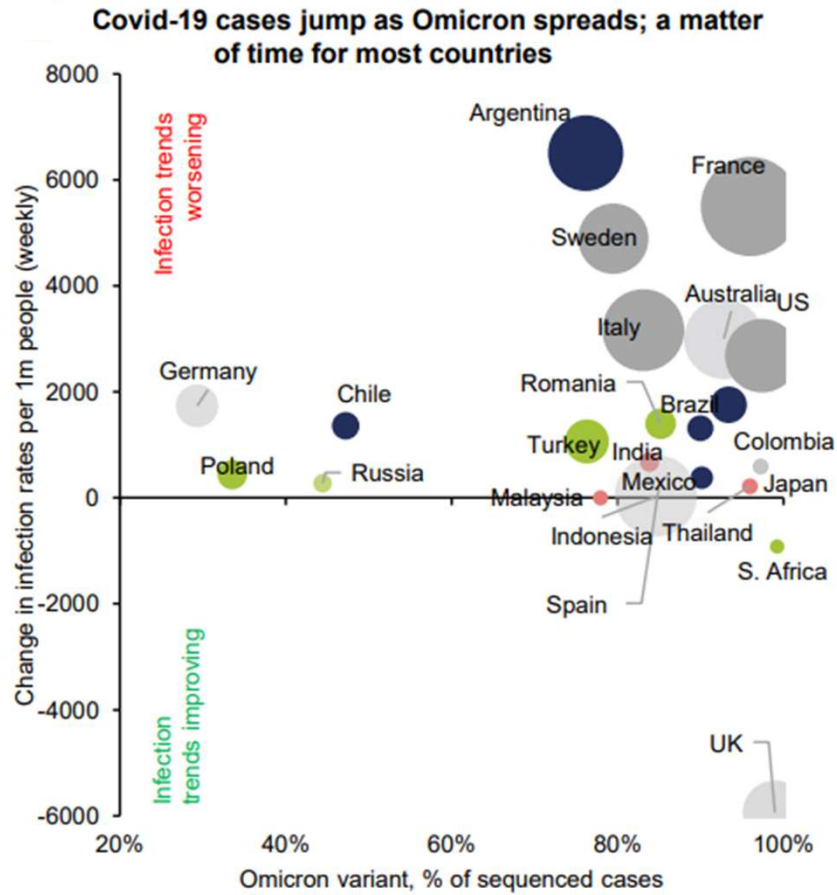
February 2022



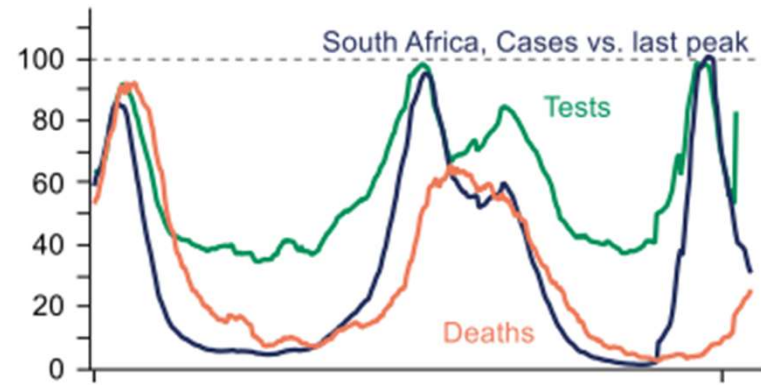
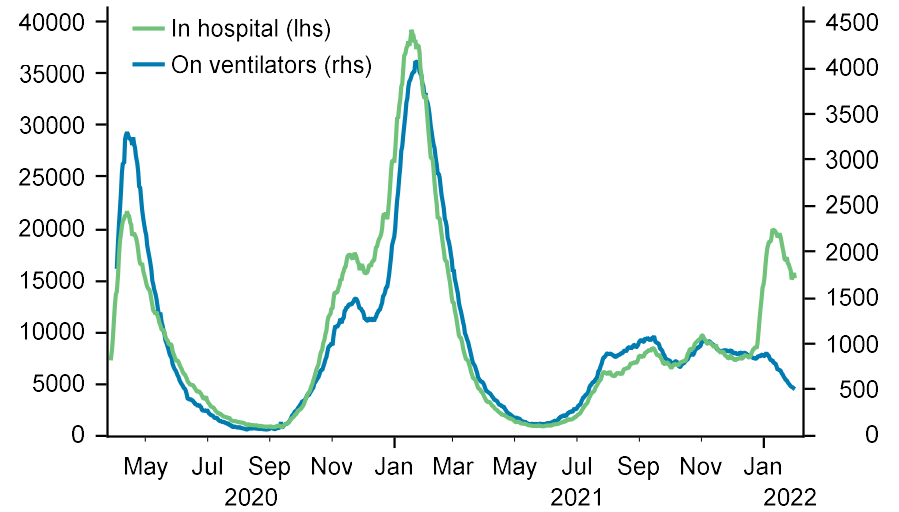
**BNP PARIBAS**

The bank for a changing world

# Covid-19



### Number of patients in UK hospitals vs. on ventilators



# Geopolitical Risks (1/3)

## Russia-Ukraine tensions priced into credit markets



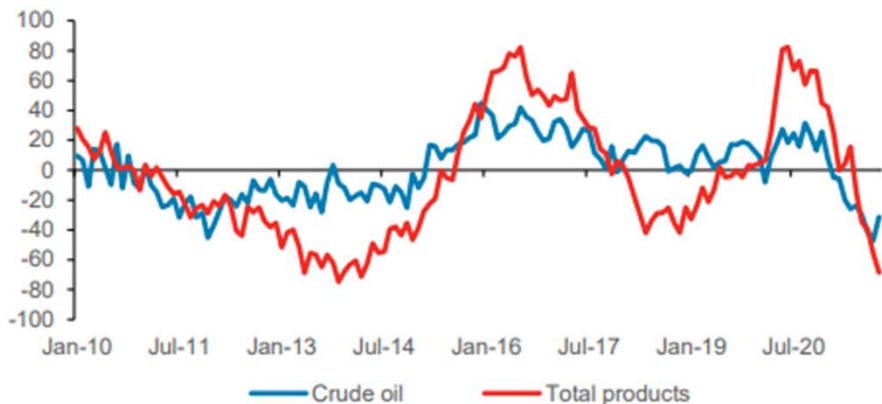
Fig. 1: Four scenarios and our subjective probabilities

Scenario	Prob.	Implication	Risk signals
'Full-blown' conflict between Russia and Ukraine	10%	Broad sanctions on Russia, energy supply risks to Europe	Russia abandons talks
'Minor incursion': Limited help to separatists	15%	Broad sanctions on Russia, higher energy prices	Action from autonomous regions
'Slow burn': No conflict, but tensions continue	50%	Limited sanctions on Russia, higher energy prices	Talks continue but troops remain stationed
'Happy ending(ish)': No conflict, some agreement	25%	No further sanctions	Upbeat wrapping up of US/Russia talks

Source: BNP Paribas.

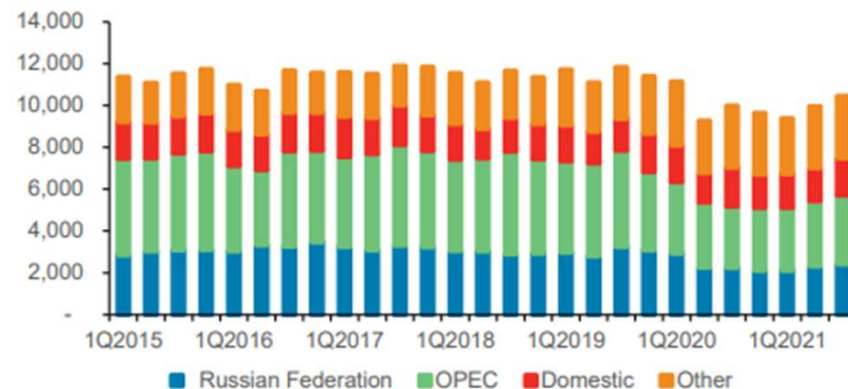
# Geopolitical Risks (2/3)

Deviation in OECD Europe crude and product inventory from five-year average (mb)



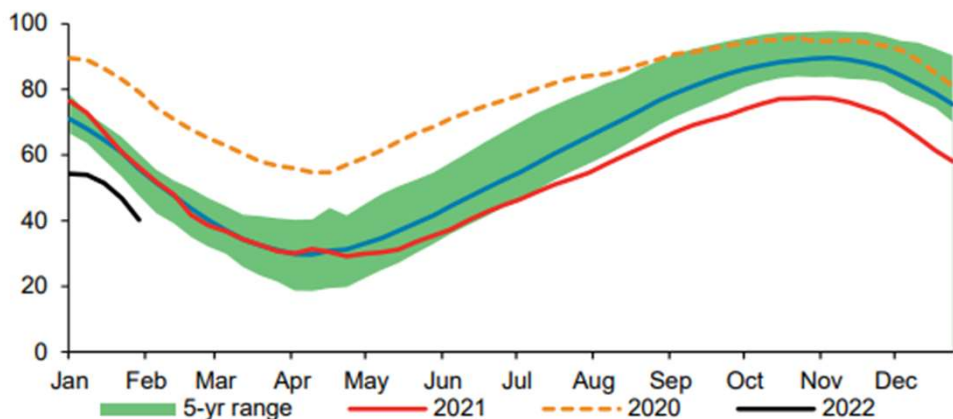
Sources: IEA, BNP Paribas

OECD Europe crude imports (kbd)



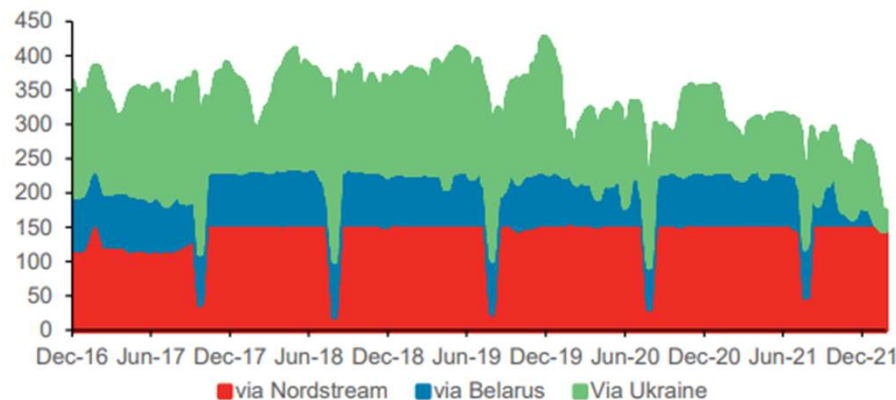
Sources: IEA, BNP Paribas

European gas storage level (percentage)



Sources: AGSI, Bloomberg, BNP Paribas

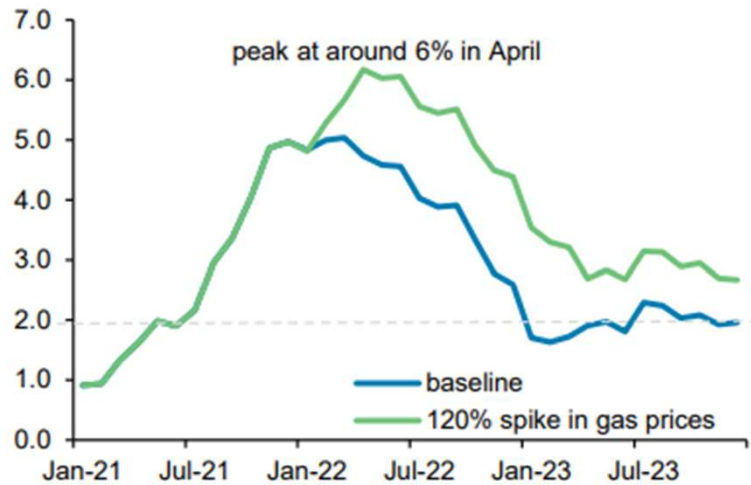
Russian pipeline gas flows (MCM/d)



Sources: Gascade, Eustream, OPAL, Bloomberg, BNP Paribas

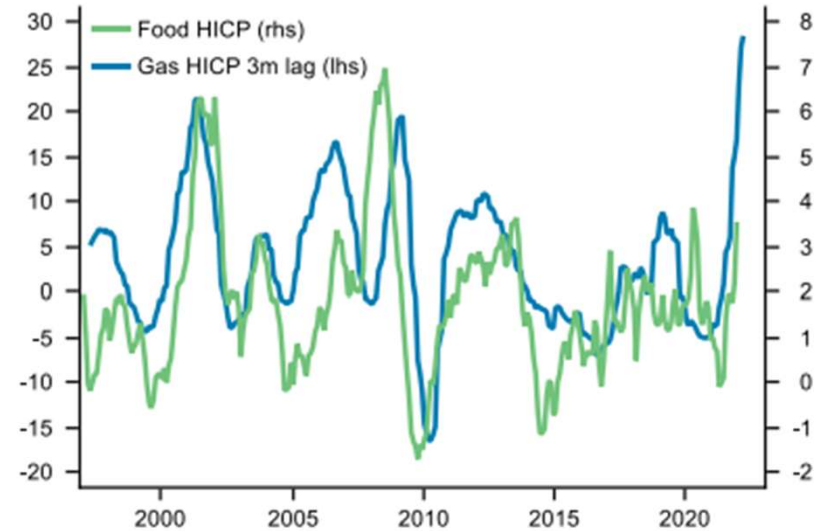
# Geopolitical Risks (3/3)

**Eurozone HICP scenarios (% y/y)**



Sources: Eurostat, Macrobond, BNP Paribas

**Food and gas inflation (% y/y)**



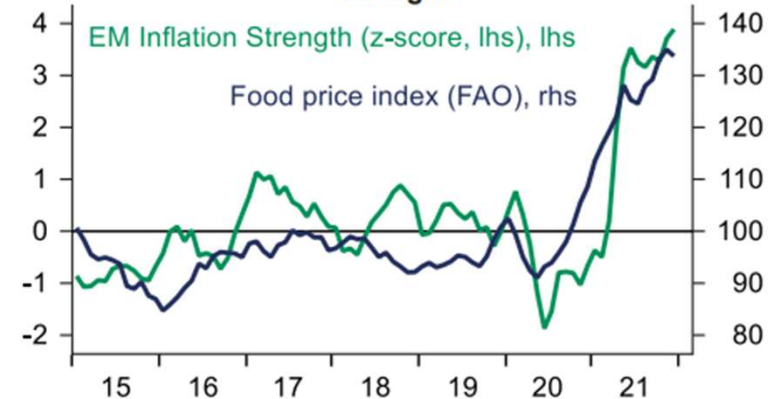
Sources: Eurostat, Macrobond, BNP Paribas

**EM inflation expectations are already on the rise**



Source: National central banks, IMF, Macrobond, BNP Paribas

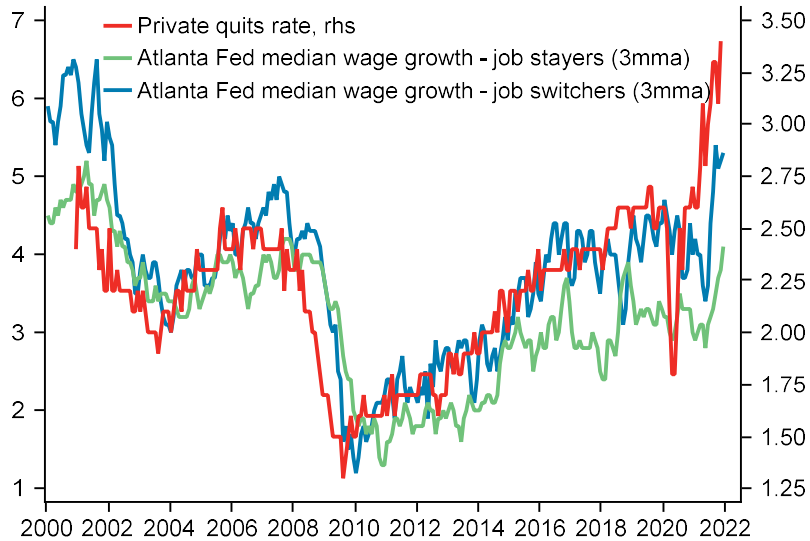
**Higher food prices correlated with EM inflation strength**



Sources: S&P Platts, Bloomberg, Macrobond, BNP Paribas

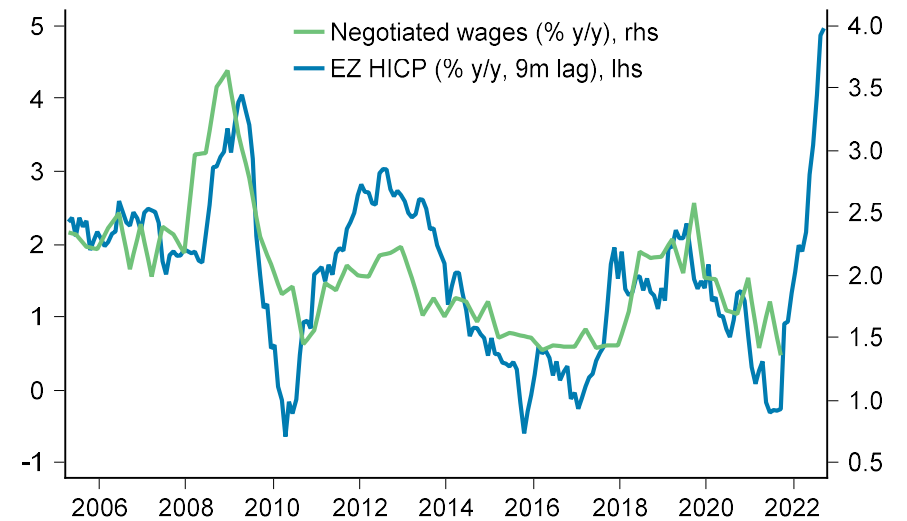
# Inflation: A change in mind-set

## US wage growth (% y/y) vs. private quits rate (%)



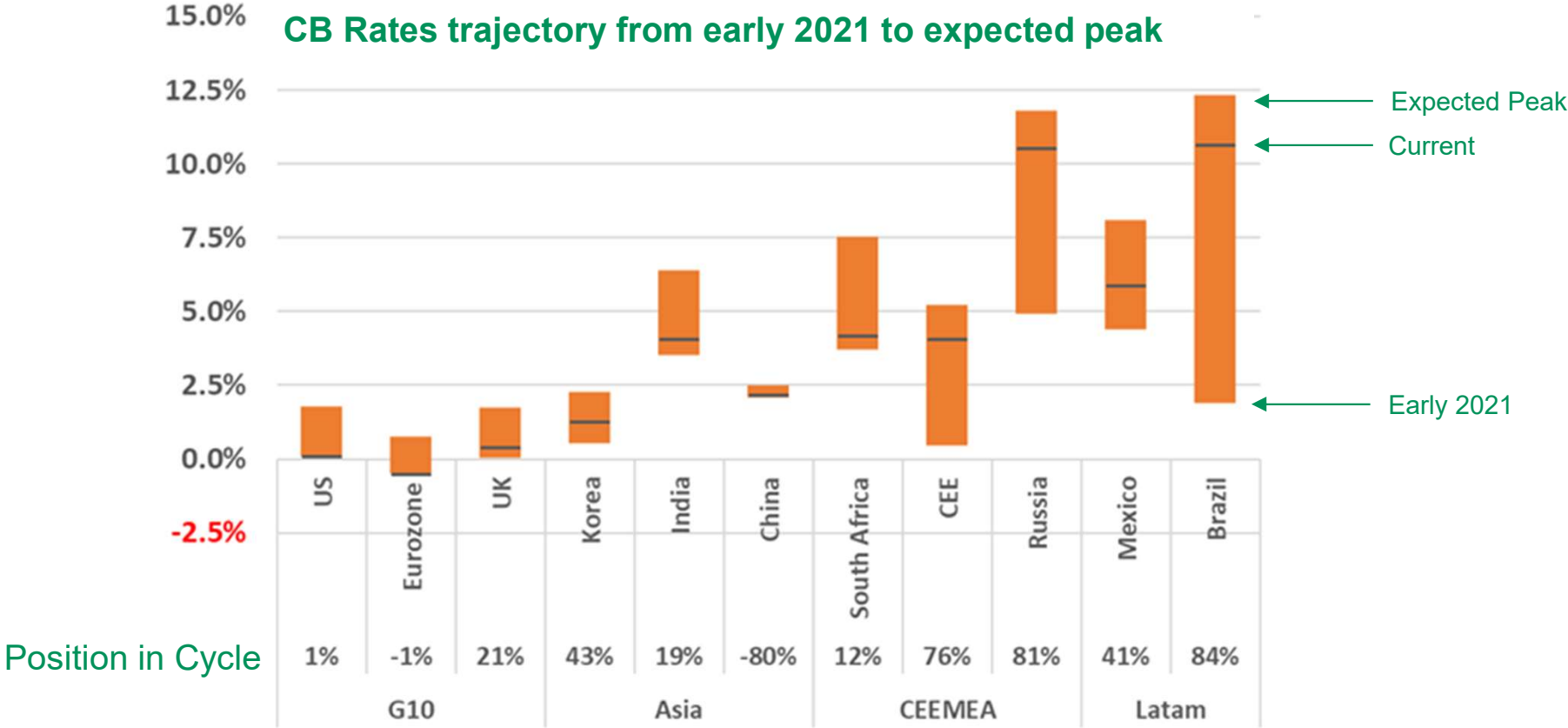
Sources: BLS, Atlanta Fed, Macrobond, BNP Paribas

## Negotiated wages respond to realised inflation with a lag of around three quarters



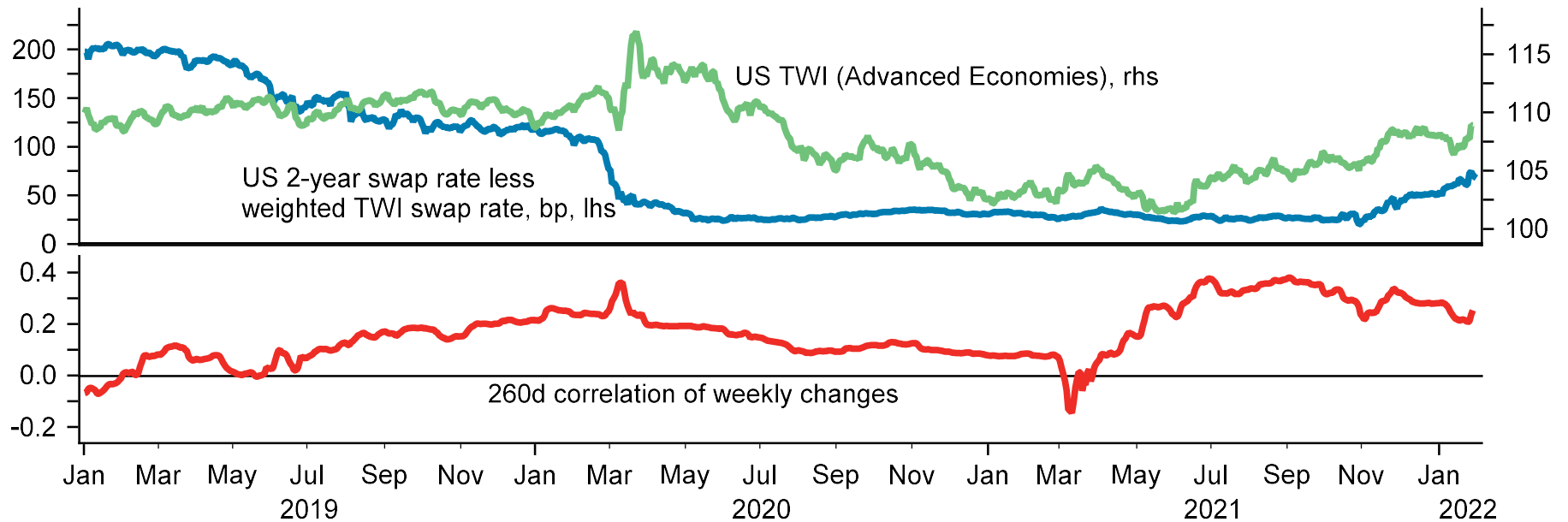
Sources: Eurostat, ECB, European Commission, Macrobond, BNP Paribas

# Central Banks: Policy Normalisation



# FX: USD trend

## Fed lift-off to re-establish USD yield advantage

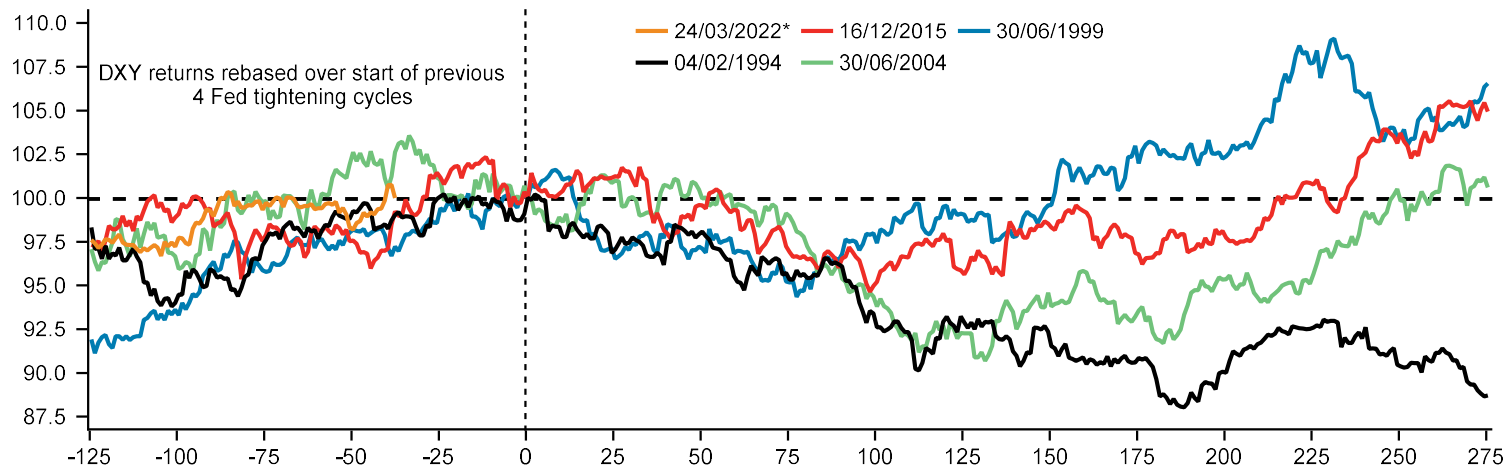


Sources: Macrobond, Bloomberg

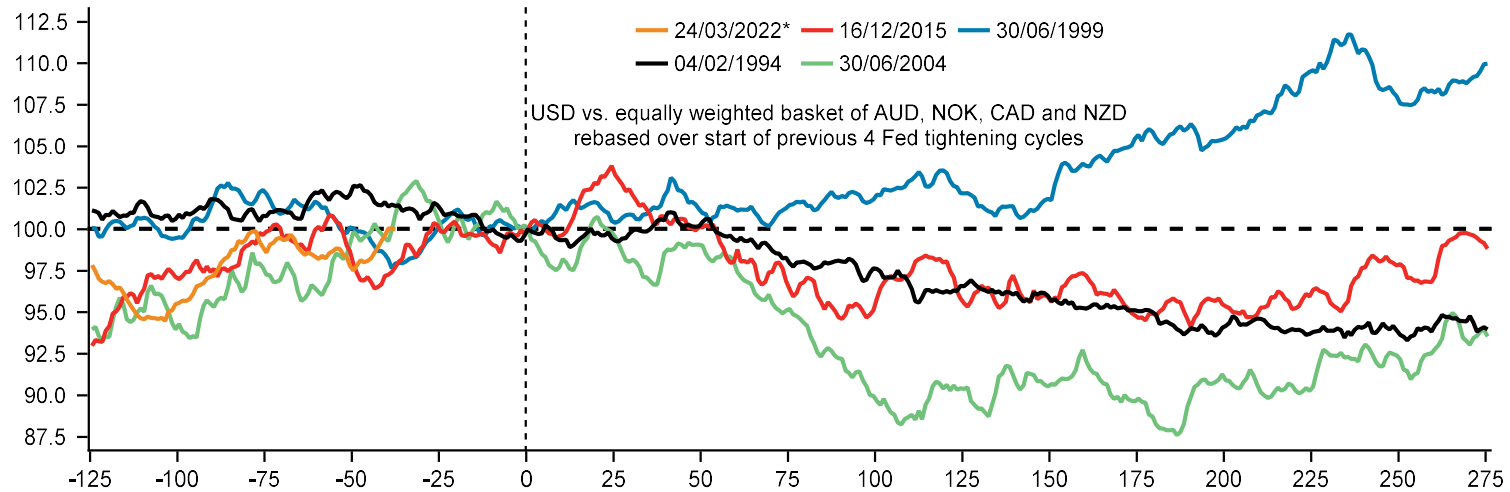


# FX: The USD during Fed tightening cycles

## Historical DXY pattern during first rate hike



## USD vs high beta FX during first rate hike



Sources: BNP Paribas, Bloomberg \*Rebased over latest available data point.

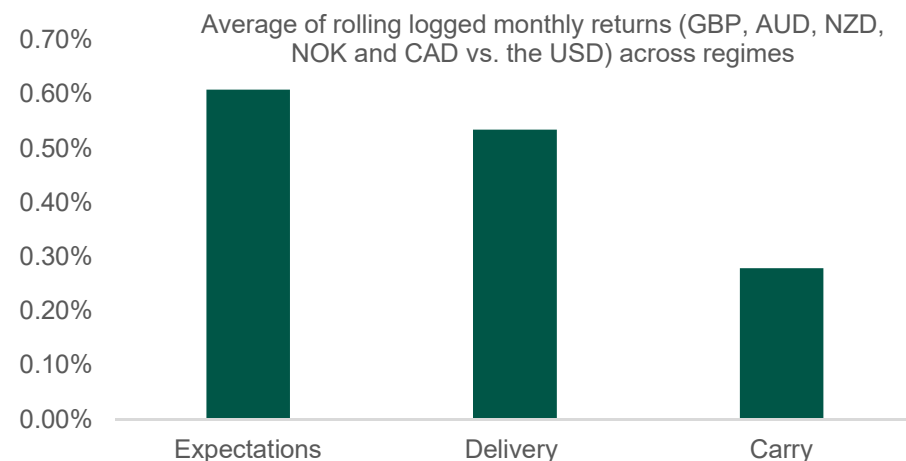
# FX performance in tightening regimes

## Rolling logged monthly returns by tightening regime\*\*

	Expectations	Delivery	Carry
<b>AUDUSD</b>	1.52%	0.75%	0.90%
<b>GBPUSD</b>	0.50%	0.36%	0.11%
<b>NZDUSD</b>	0.54%	0.50%	0.10%
<b>NOKUSD</b>	0.40%	0.40%	0.01%
<b>CADUSD</b>	0.09%	0.66%	**
<b>USDEUR</b>	0.19%	-0.10%	-0.19%
<b>USDJPY</b>	0.10%	0.16%	-0.01%
<b>USDCHF</b>	0.28%	0.01%	-0.13%

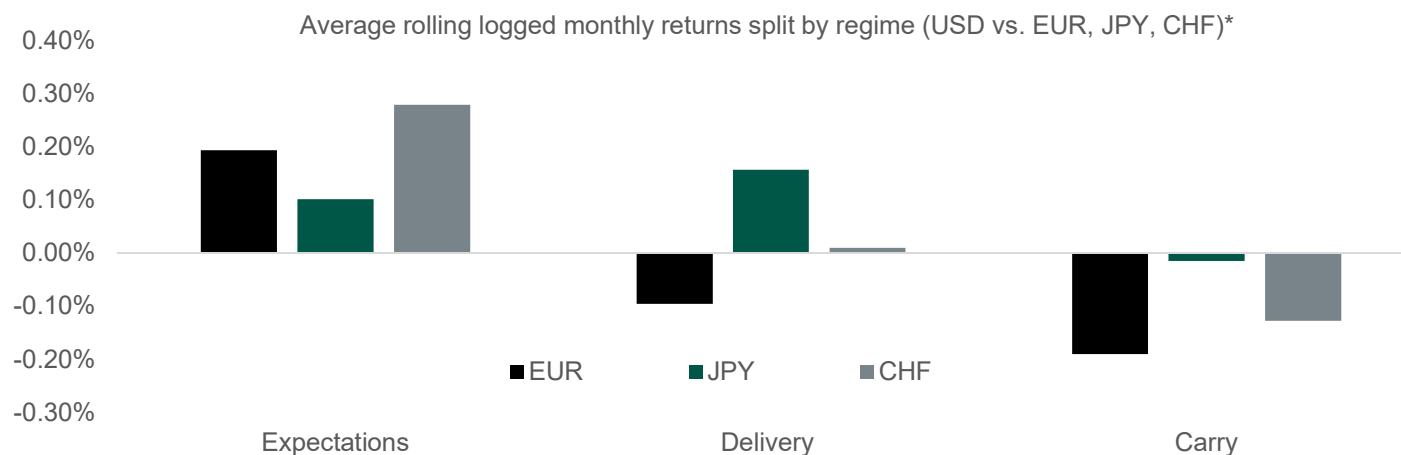
Sources: BNP Paribas, Bloomberg \*\*Insufficient number of observations

## High beta G10 FX performance throughout tightening



Sources: BNP Paribas, Bloomberg

## USD vs low beta FX during Fed tightening



Sources: BNP Paribas, Bloomberg \*Positive % implies USD is strengthening

\*\*Analysis published 1 October 2021. Analysis uses data since 2000.

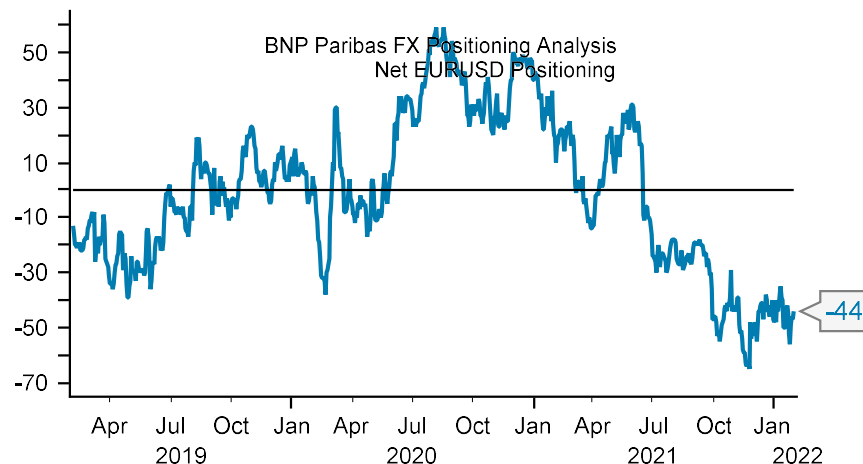
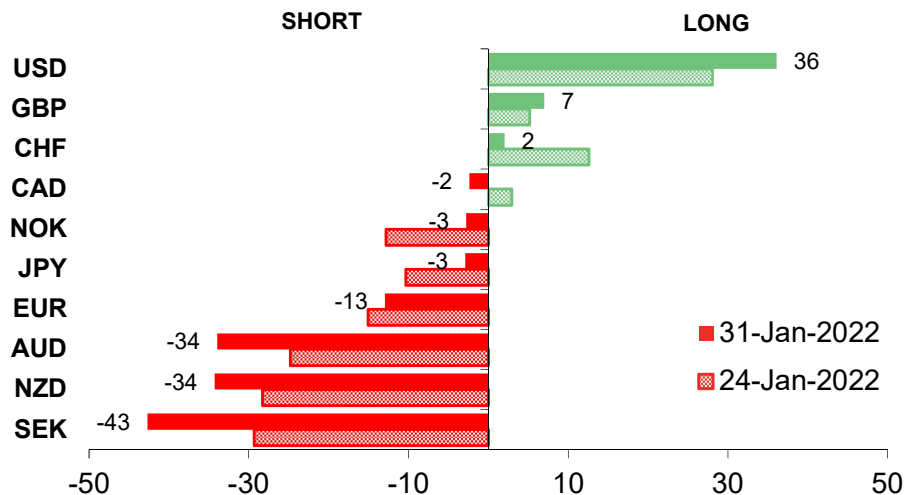
1) Expectations: This is the pricing in of rate hikes and in our analysis, we define this as the average rolling logged monthly returns in FX in the 6m leading up to the first hike of a cycle provided 2y swap rates are rising in favour of the respective currency.

2) Delivery: This is when a central bank delivers rate hikes and in our analysis, this is defined as the average of the rolling logged monthly returns in FX when both the base rate and 3m FX implied yields are rising month-on-month.

3) Carry: This regime aims to capture the end of the cycle when carry peaks. It is defined as the average rolling logged monthly returns in FX in the 3m before and 3m after the final hike, when carry peaks.

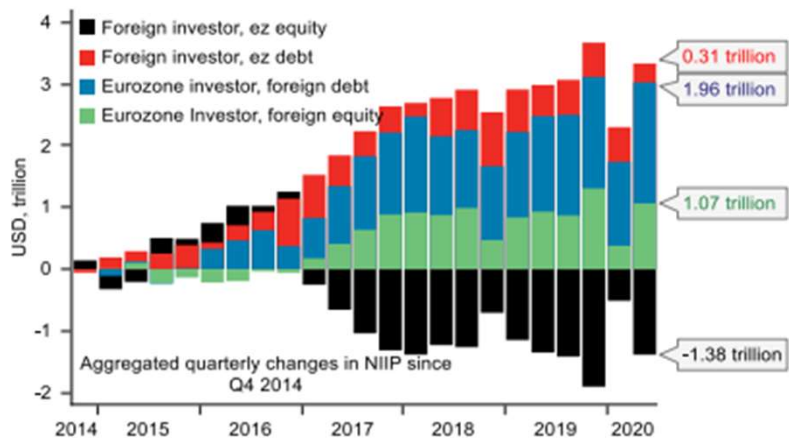
# FX: USD positioning & EZ Flows

## BNP Paribas FX Positioning Analysis



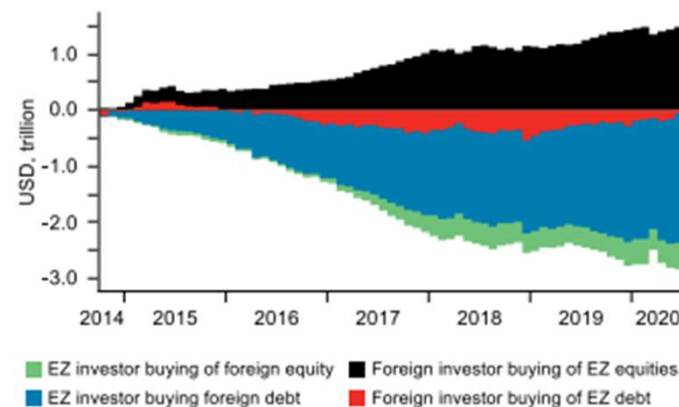
Sources: BNP Paribas, Macrobond, Bloomberg, BNP Paribas

## Eurozone NIIP



Source: BNP Paribas, Macrobond, ECB

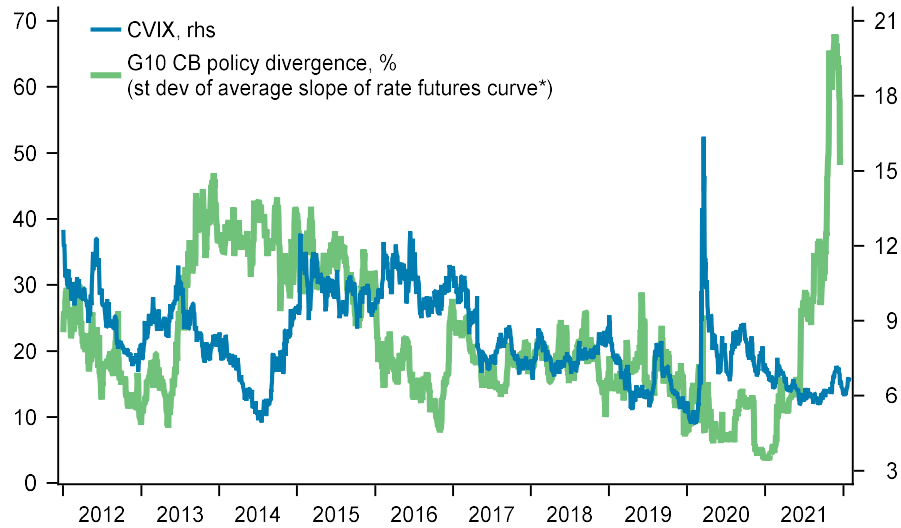
## Eurozone accumulated portfolio flows since Q4 2014



Source: BNP Paribas, Macrobond, ECB

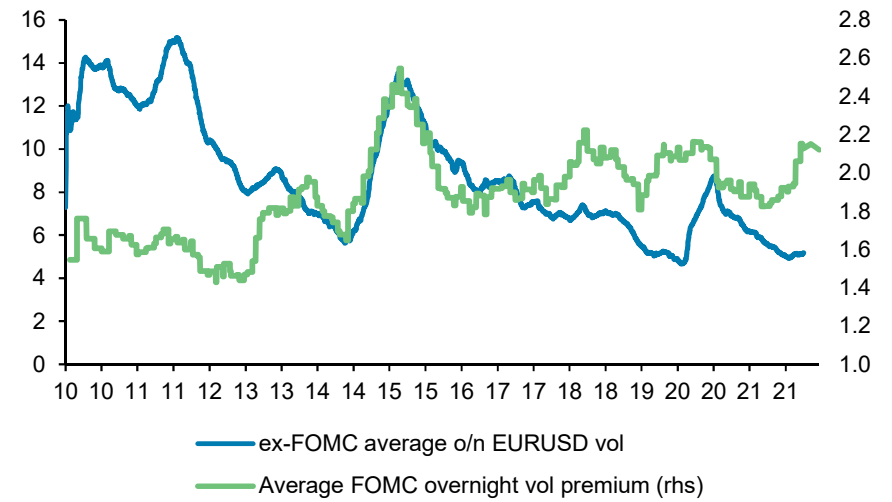
# Realised volatility to rise

## G10 monetary policy divergence and average 3m implied Vol



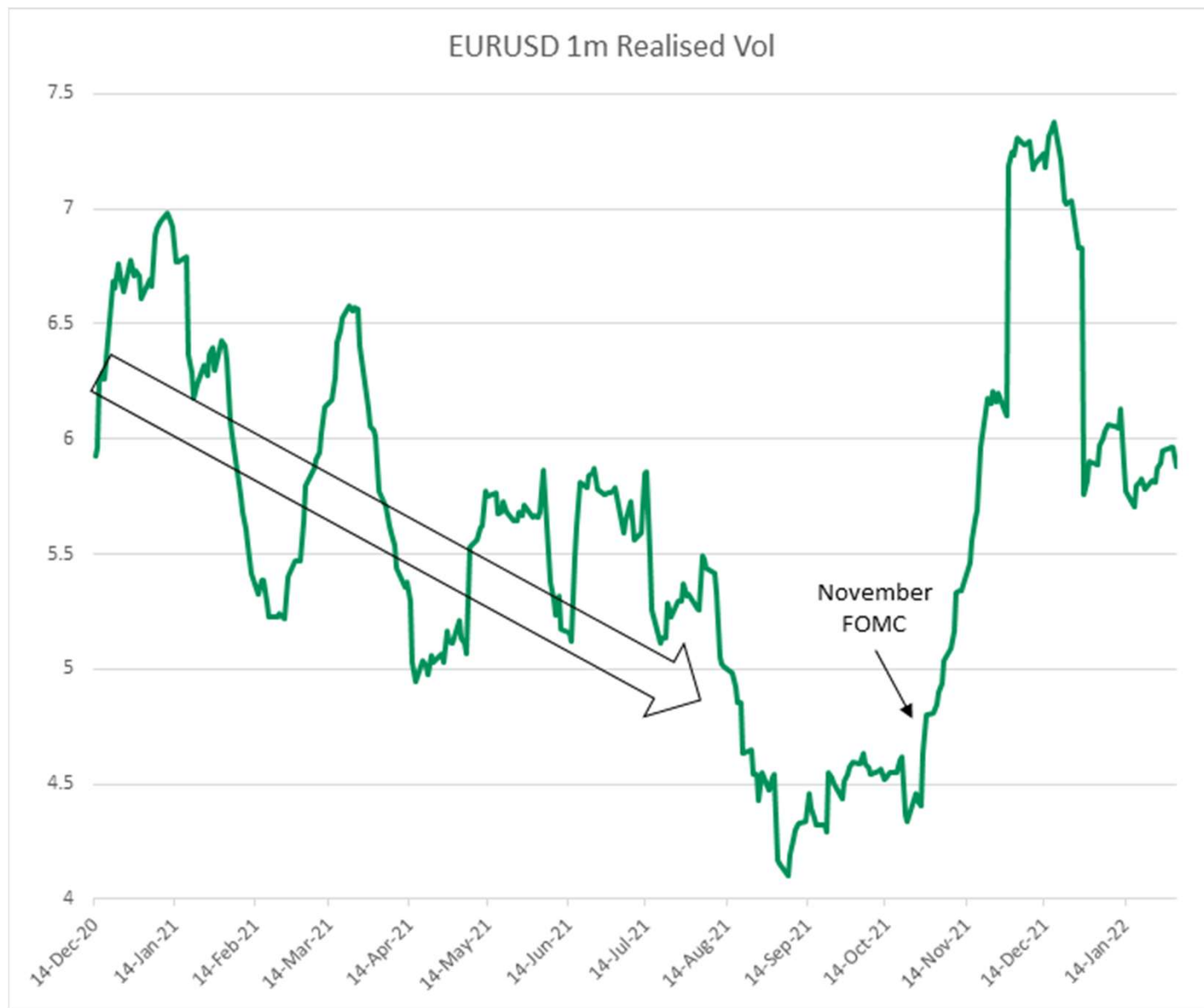
Sources: Bloomberg, BNP Paribas

## Vols have scope to catch up to higher event risk premium

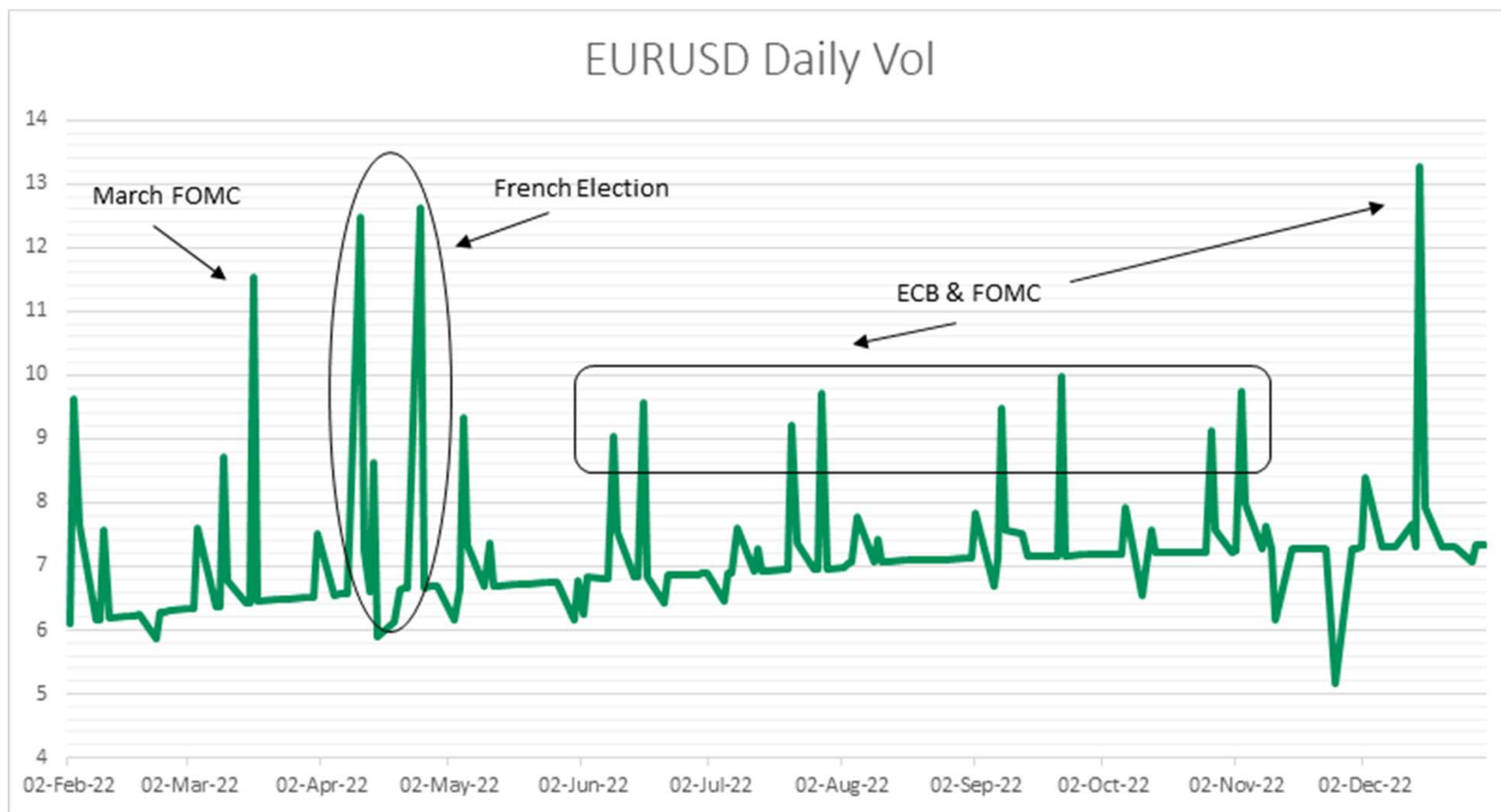


Sources: Bloomberg, BNP Paribas

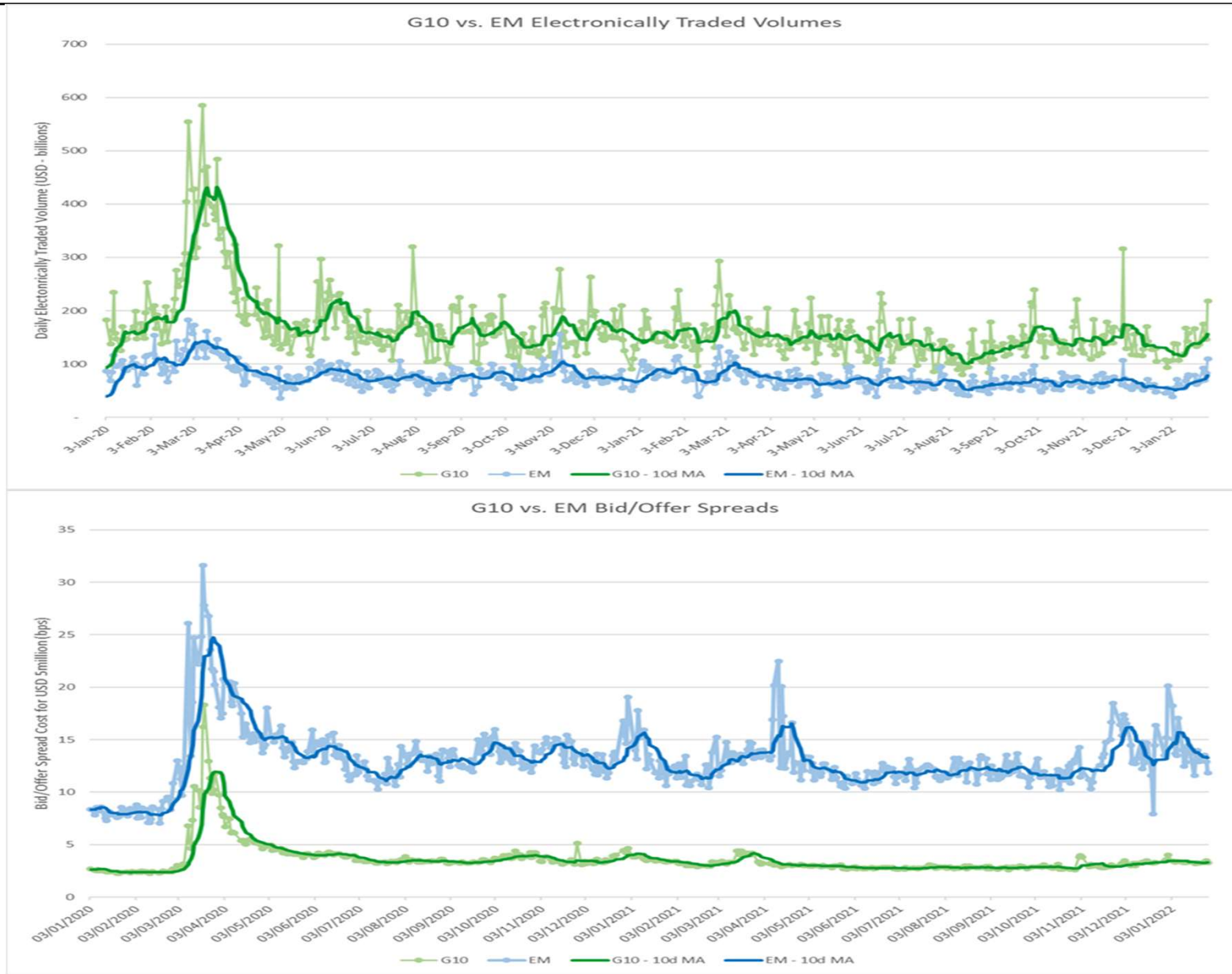
# FX: Realised Volatility



# FX: Implied Volatility



# FX Liquidity



# RMB: Onshore Development

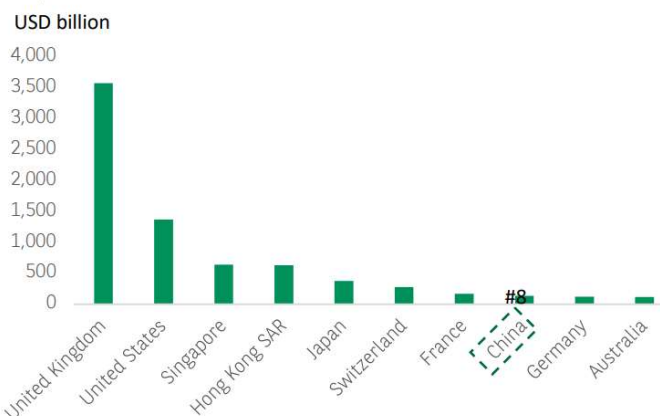
## OVERVIEW OF CHINA FX MARKET

### Market size

China's onshore FX market was the 8<sup>th</sup> in the world in terms of average daily turnover in 2019, and the 4<sup>th</sup> largest in Asia, after Singapore, Hong Kong SAR and Japan.

Trading volume in the interbank FX market stood at RMB 206 trillion in 2020, a 3% rise compared to the previous year.

Top 10 FX markets in the world



Source: BIS, turnover of OTC foreign exchange instruments, net-gross basis, 2019

### Types of tradable instruments

FX spot	
	27 currency pairs.
	USD/CNY accounts for over 90% of all trades
FX Derivatives	
FX Forwards	24 currency pairs
FX Swaps	24 currency pairs
Cross Currency Swaps (CCS)	6 currency pairs (USD/CNY, EUR/CNY, JPY/CNY, HKD/CNY, GBP/CNY, AUD/CNY)
FX Options	5 currency pairs (USD/CNY, EUR/CNY, JPY/CNY, HKD/CNY, GBP/CNY)

Membership	Number of Members
RMB/FX Market Makers	25
RMB/FX Spot Market Members	721
RMB/FX Forward Market Members	255
RMB/FX Swap Market Members	251
RMB/FX Cross Currency Swap Market Members	207
RMB/FX Options Market Members	159

## Trading Volume (2020)

China FX spot trading volume



China FX forwards trading volume





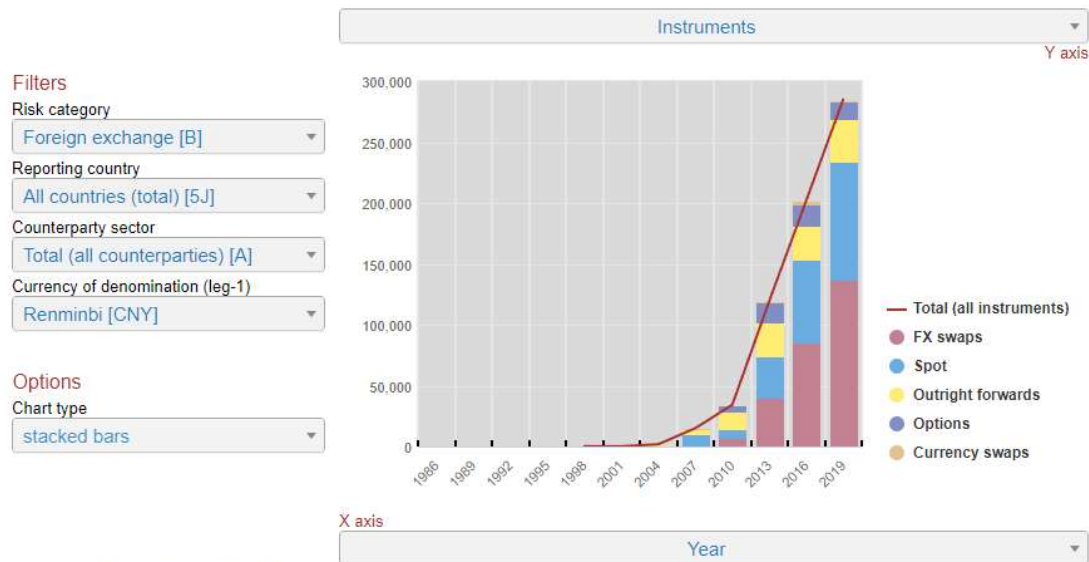
# RMB: Global Volumes

## Global foreign exchange market turnover

Net-net basis  
Daily averages, in millions of US dollars

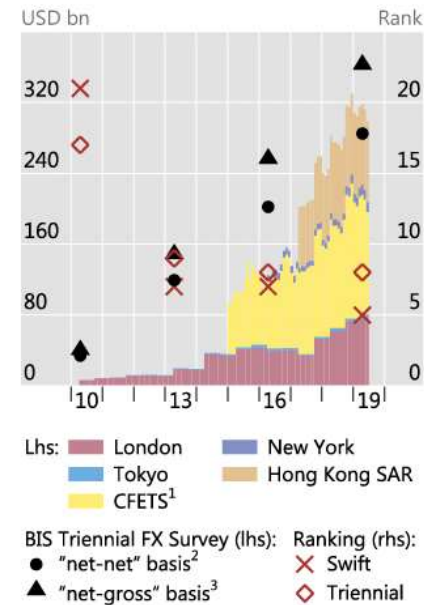
Interactive graph

help

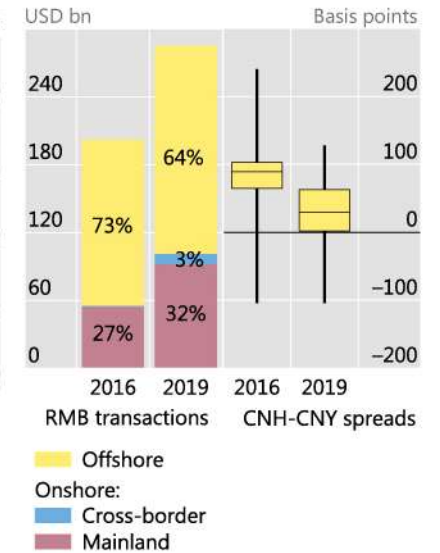


Source: BIS [Triennial Central Bank Survey](#) of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets. For more data see the [BIS Statistics Explorer](#).

## Average RMB daily transaction volume

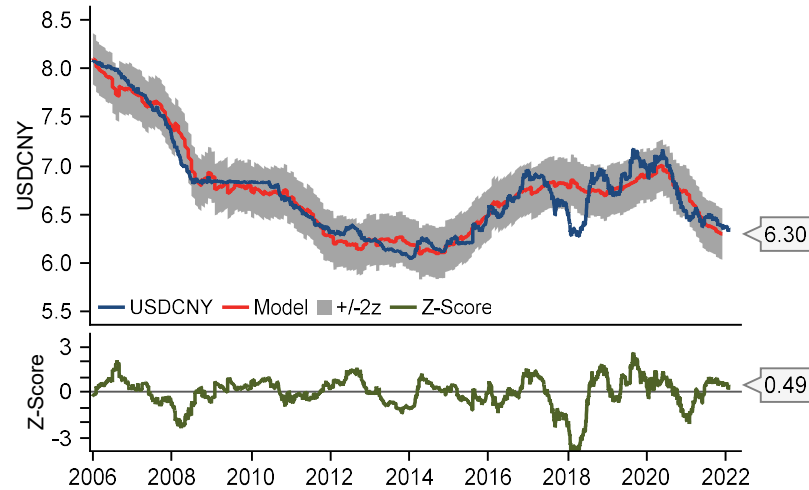


## RMB offshore vs onshore trading and CNH-CNY spread



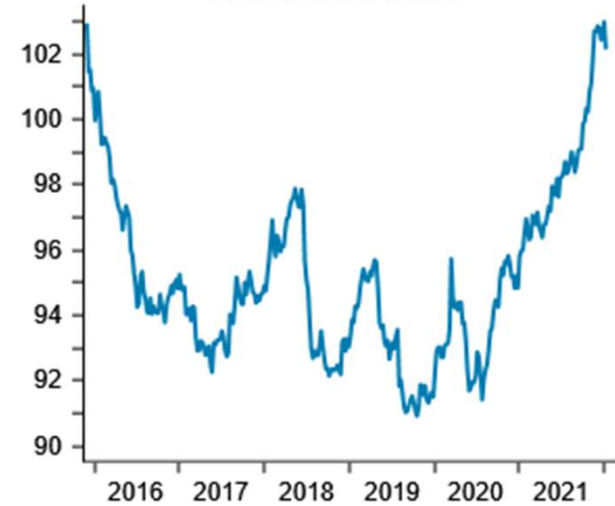
# RMB Trend

**BNPP CLEER USDCNY model**



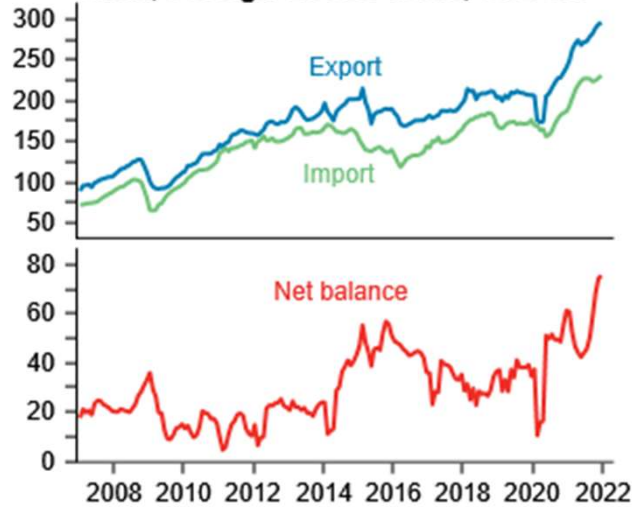
Sources: BNP Paribas, Bloomberg

**CFETS RMB Index**



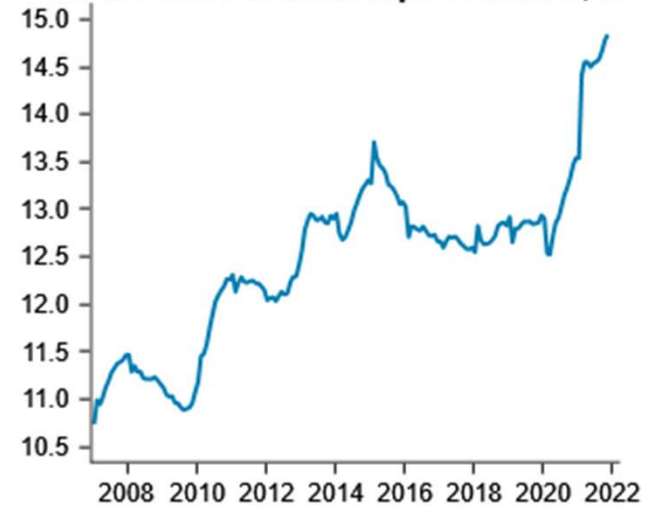
Source: China Foreign Exchange Trade System (National Interban)

**China, Foreign Goods Trade, USD bn**



Source: China Customs Statistics Information Center (CCS), BNP

**China's share of world export volumes, %**



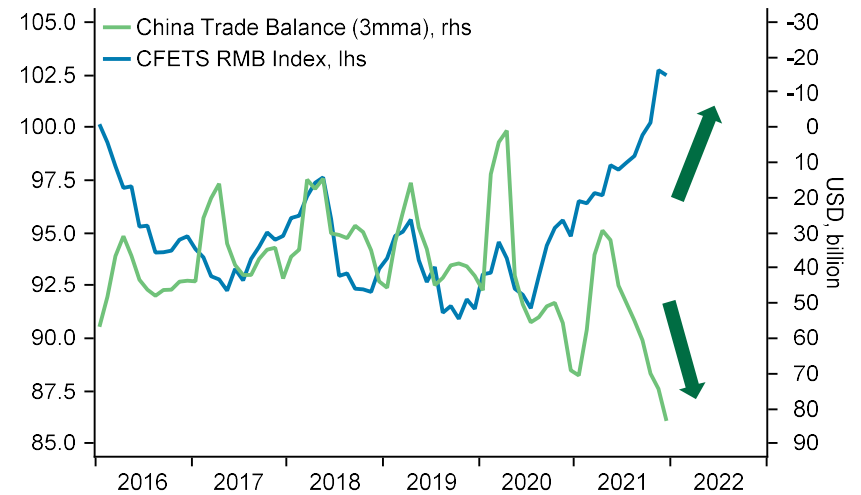
Source: World Bank, China Foreign Exchange Trade System (Nati)

# RMB: Index vs Trade Balance



Source: World Bank, China Foreign Exchange Trade System (National Interbank Funding Center), E

### CFETS RMB index versus China trade balance



Sources: BNP Paribas, Bloomberg

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