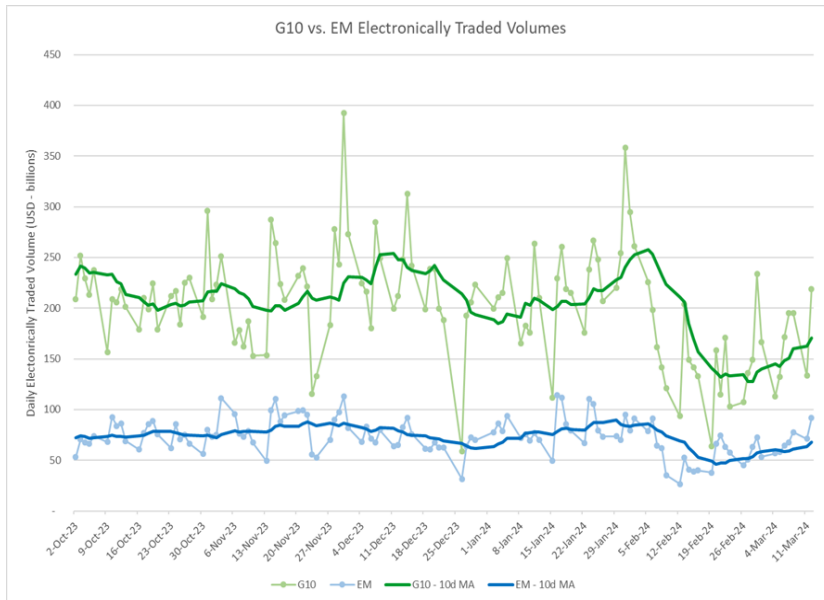


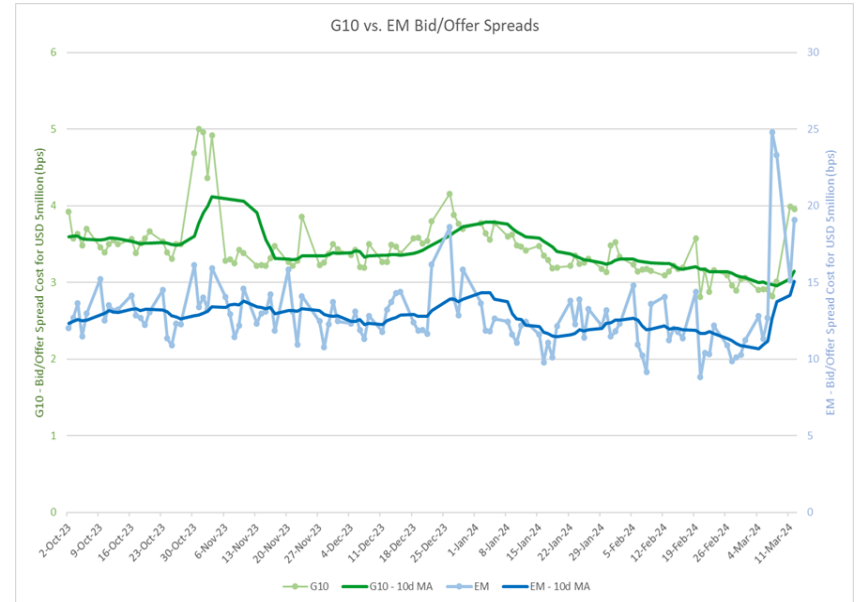
FX Volumes and Spreads

Volume



Sources: Primary and ECN venues

Bid offer spread



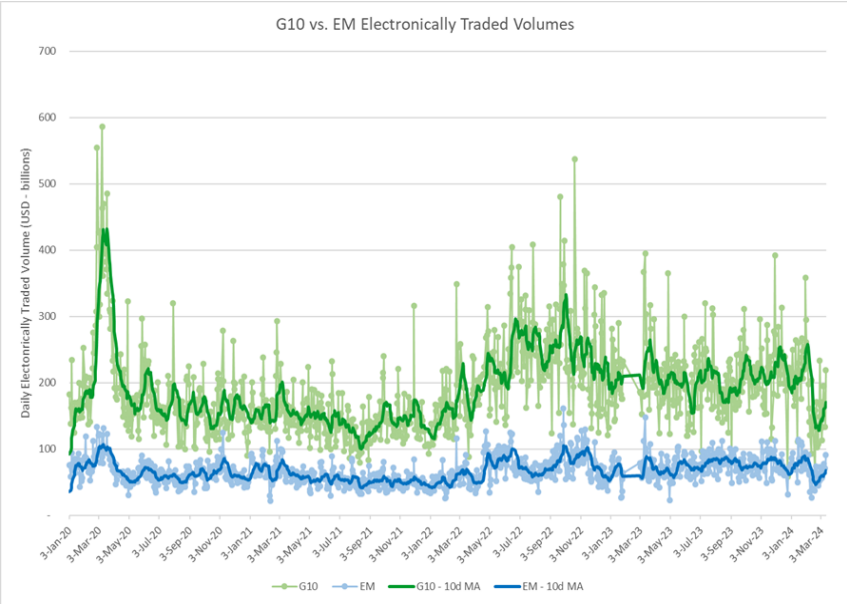
Sources: Primary and ECN venues



Volumes dropping in Q1, spreads compressing

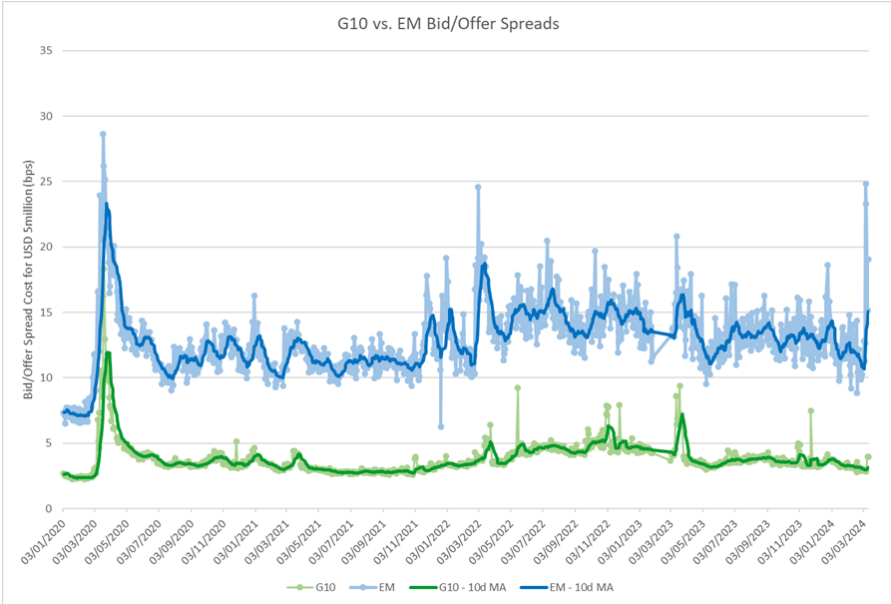
FX Volumes and Spreads – looking further back

Volume



Sources: Primary and ECN venues

Bid offer spread



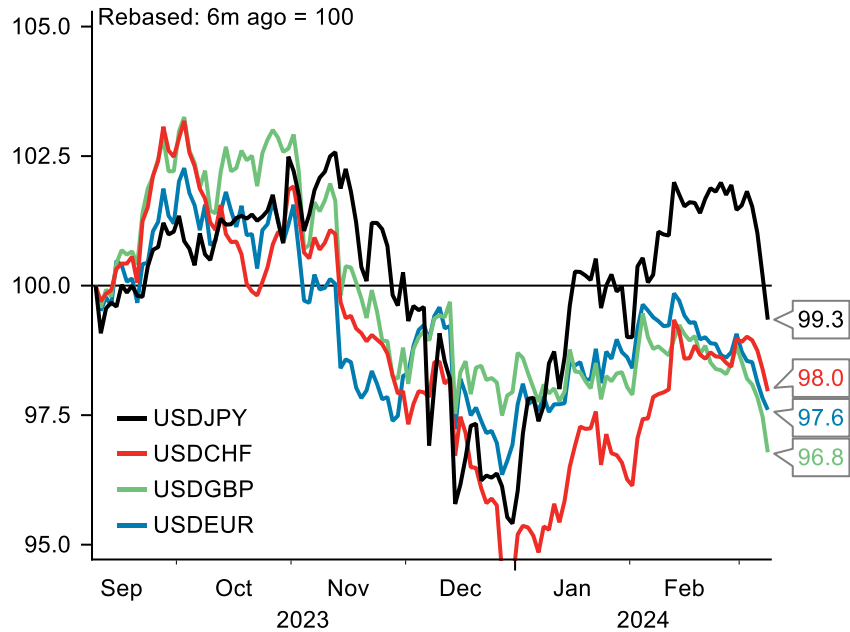
Sources: Primary and ECN venues



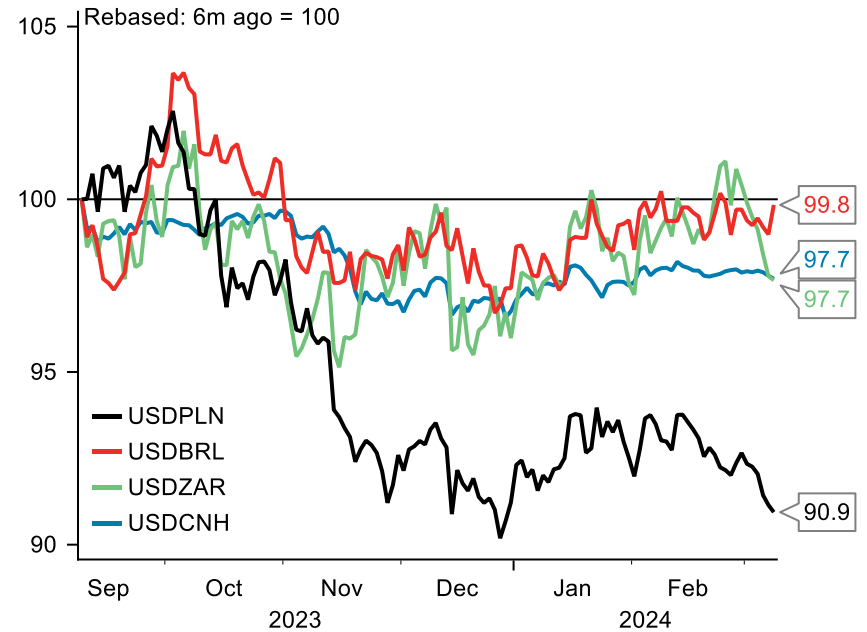
2020/2021 vs 2022/2023

USD performance

USD vs EUR, CHF, JPY, GBP



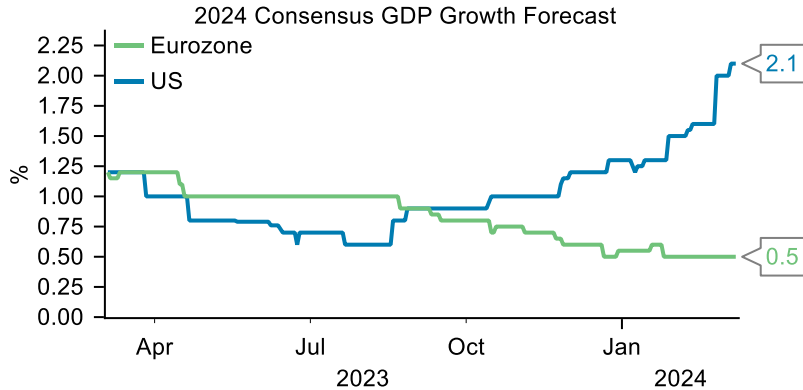
USD vs PLN, ZAR, BRL, CNH



USD shorts squeezed to start the year

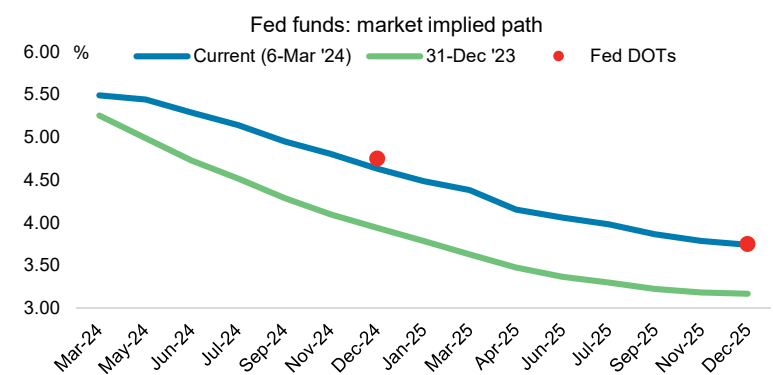
Summary of recent market moves

US GDP growth has been revised continually higher in contrast to elsewhere



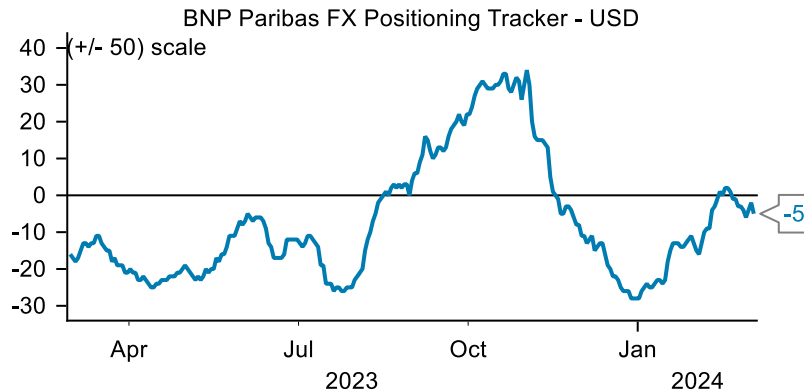
Sources: Bloomberg, Macrobond, BNP Paribas

Market pricing for Fed Funds has converged with the FOMC's DOTs



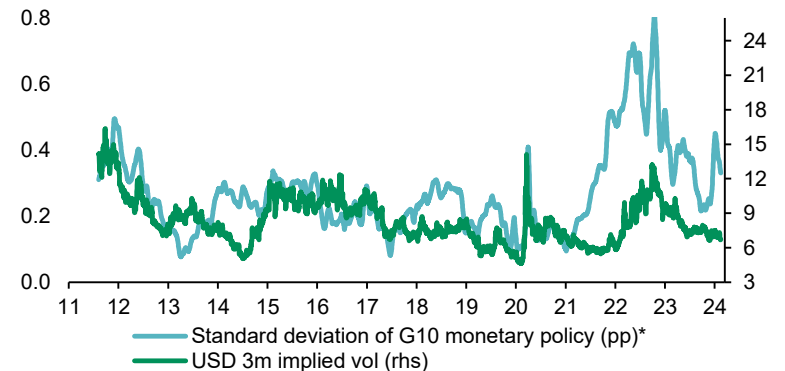
Sources: Federal Reserve, Bloomberg, BNP Paribas

USD short positions have been fully unwound



Sources: Bloomberg, Macrobond, BNP Paribas

Less policy divergence suggests balanced risks for FX vol



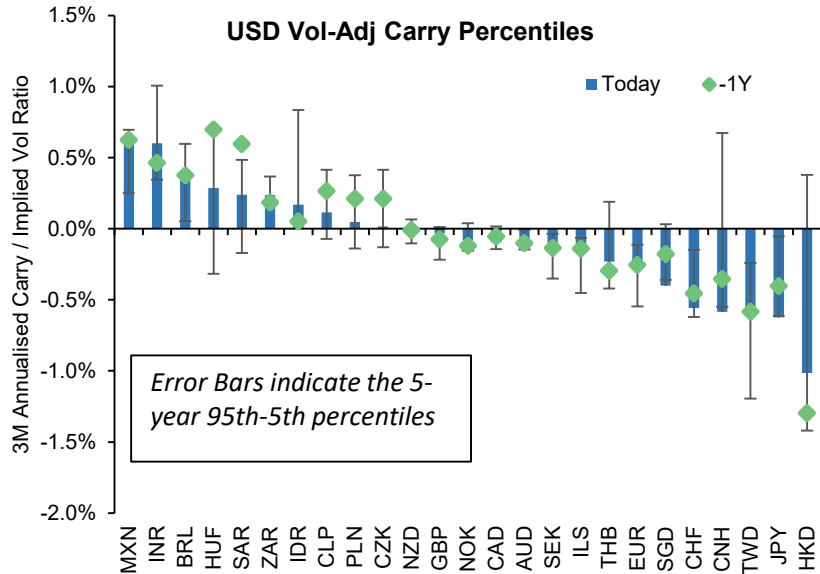
Sources: Bloomberg, Macrobond, BNP Paribas



US exceptionalism has seen Fed rate cut expectations unwind and FX vol de-couple from rates vol

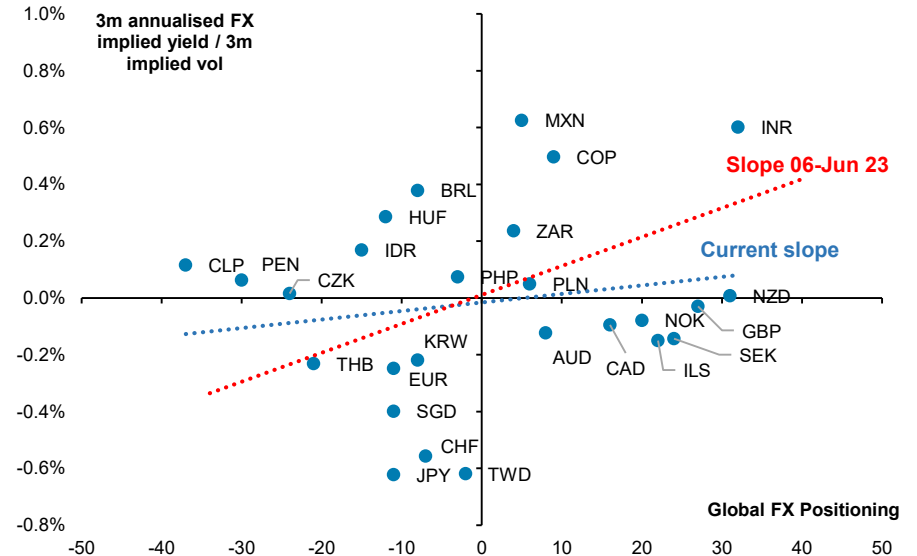
Carry still our top pick

MXN and BRL top carry picks



Sources: Bloomberg, BNP Paribas

Room for positioning in high yielders to extend (as well as positioning in the low yielders)



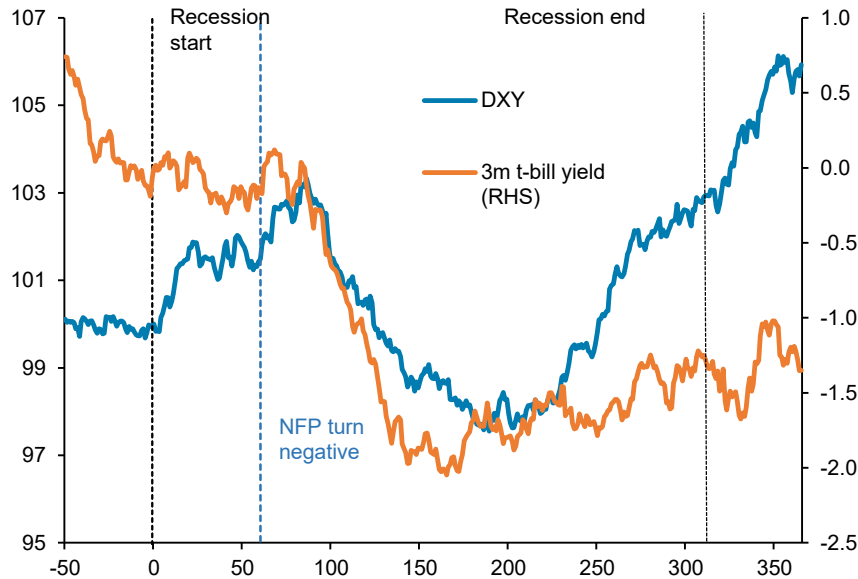
Sources: Bloomberg, BNP Paribas



We see further room for FX carry outperformance.

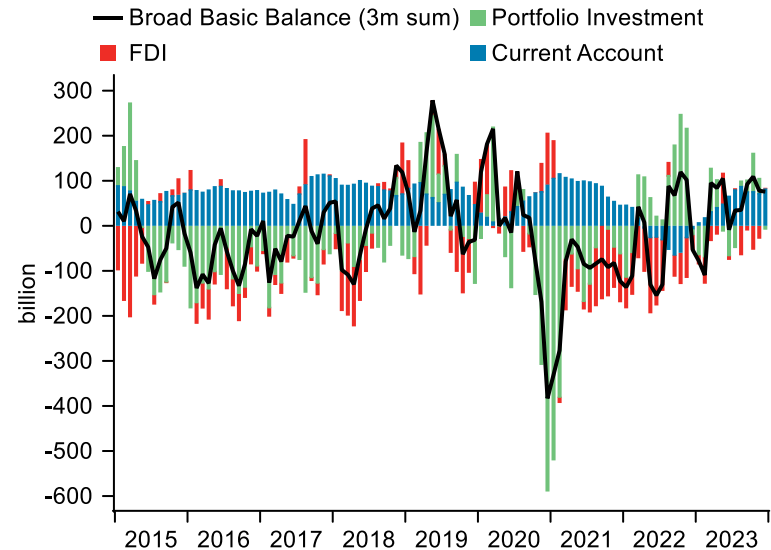
EURUSD – range bound

Average change in DXY and 3m yields during recessions



Recession start and end are those defined by NBER. See [Business Cycle Dating | NBER](#).
Sources: Bloomberg, BNP Paribas

Eurozone' broad basic balance of payments has improved



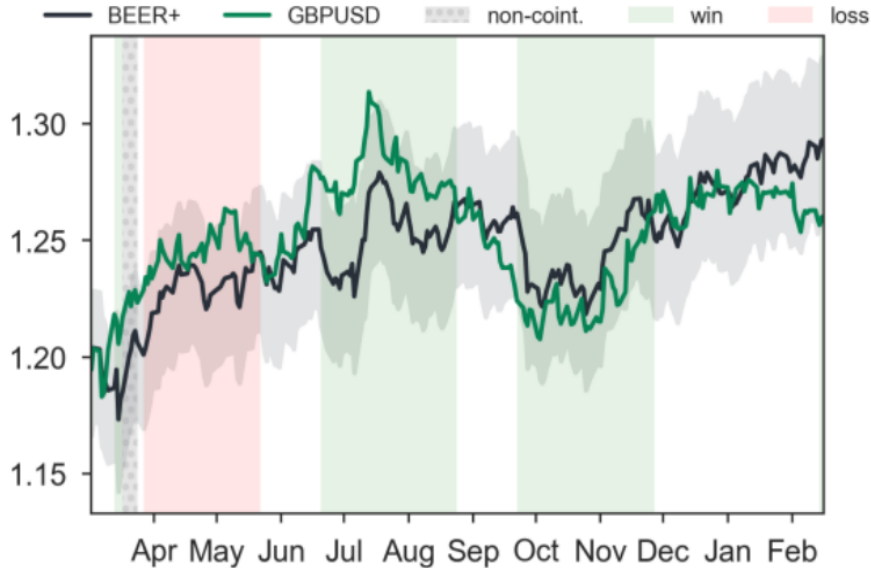
Sources: Macrobond, ECB, BNP Paribas.



Resilient US growth and high US yields overwhelm positive EUR fundamentals going into year end

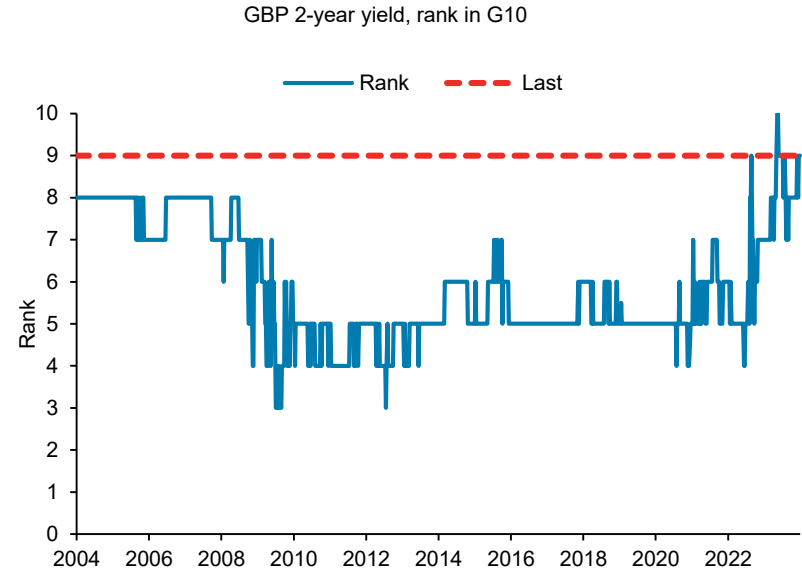
GBPUSD – green shoots

GBPUSD spot vs BEER+ fair value



Sources: Bloomberg, BNP Paribas

UK yields rank more highly in G10 than history



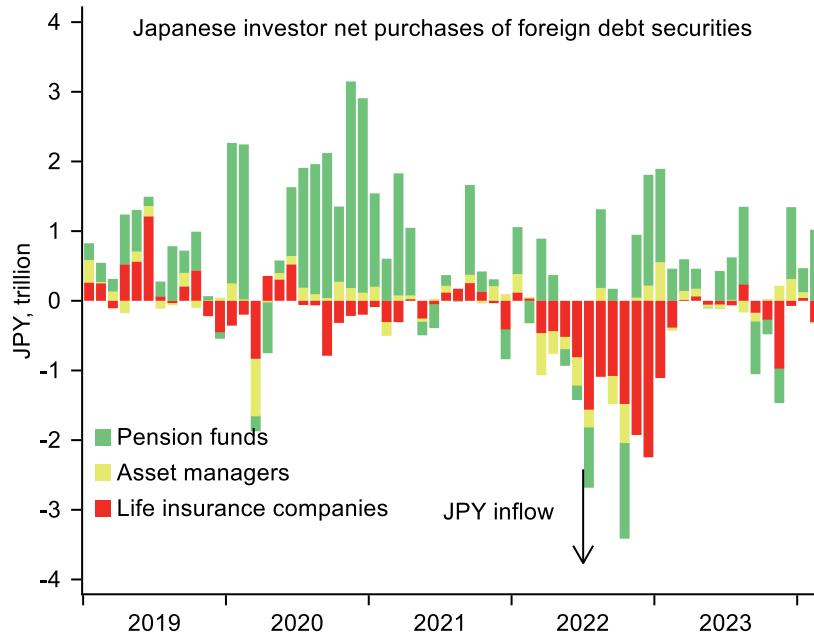
Sources: Bloomberg, BNP Paribas.



GBP is cheap and we think high UK yields and the general election are supportive for GBP this year

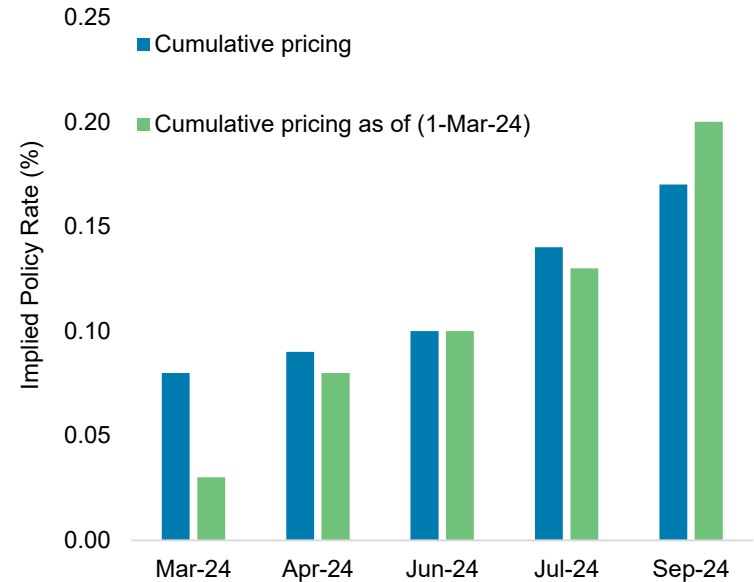
USDJPY – trading water

Japanese investors could slow their purchases of foreign debt



Sources: Macrobond, MoF, BNP Paribas

Market pricing for BoJ rate hikes have already repriced and carry remains punitive



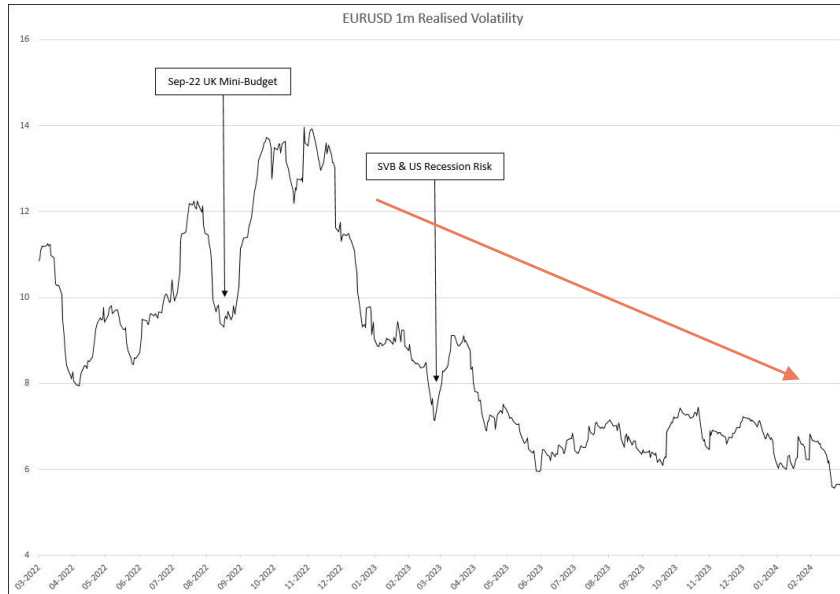
Sources: Bloomberg, BNP Paribas.



After the BoJ exits NIRP domestic investors could slow purchases of foreign debt but this remains to be seen and carry is negative

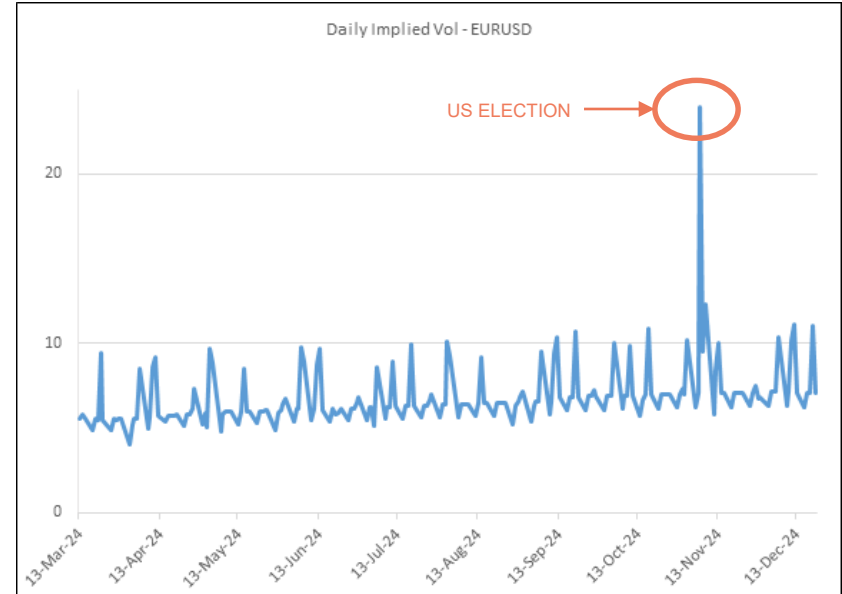
FX vol: Steady trend lower

Realised volatility trending lower from Q4 2022



Sources: BNP Paribas

Event Risk is stable except...



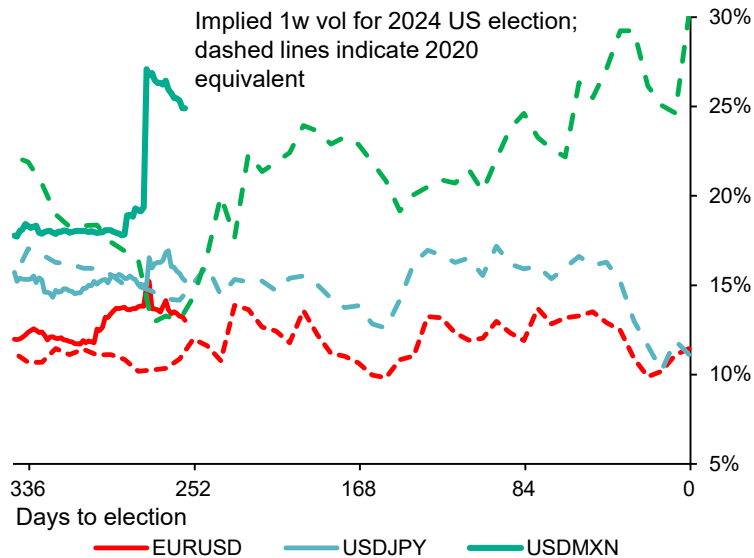
Sources: BNP Paribas



Realised volatility trending lower, with only one major event priced in the calendar

FX vol: US Election Premium

Implied election date vol has already risen



Sources: BNP Paribas

Historical implied break evens vs 2024 pricing

	t = 8-Nov-16	t = 3-Nov-20	2024
	Implied 1w b/e	Implied 1w b/e	Implied 1w b/e
EURUSD	1.3%	1.3%	1.4%
USDJPY	1.8%	1.2%	1.7%
USDCHE	0.4%	1.2%	1.5%
GBPUSD	1.3%	1.5%	1.7%
USDCAD	2.3%	1.3%	1.3%
AUDUSD	1.2%	1.7%	2.0%
USDMXN	1.2%	3.3%	2.7%
USDBRL	3.8%	3.0%	2.4%
USDZAR	2.8%	2.4%	2.4%
USDCNH	1.3%	1.5%	1.3%
USDKRW	1.3%	1.6%	1.6%
USDPLN	1.5%	2.3%	2.2%

Sources: BNP Paribas



A lot of risk premium is already in the price for the US election

Discussion points

- Internalisation rates impacting volumes and spreads?
- More cuts or less cuts – where is the risk asymmetry?
- Is the US election that important?
- EUR – higher or lower?
- Does BoJ matter for JPY?
- Lower volatility – the new normal?



Any questions?

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