

Chart Pack for ECB FXCG Meeting June 2024

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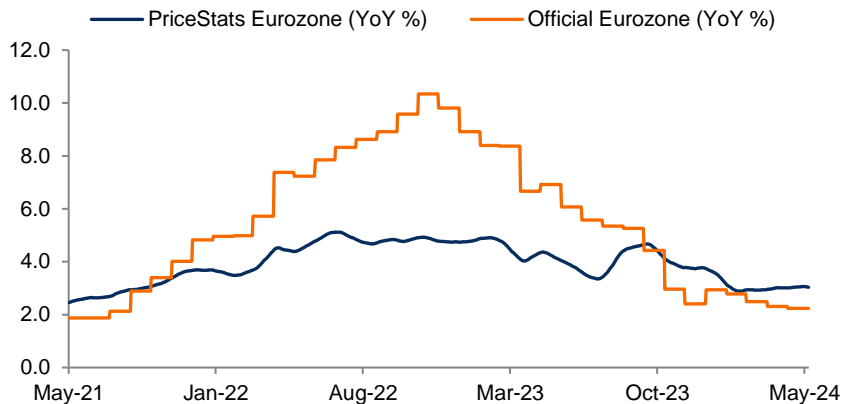


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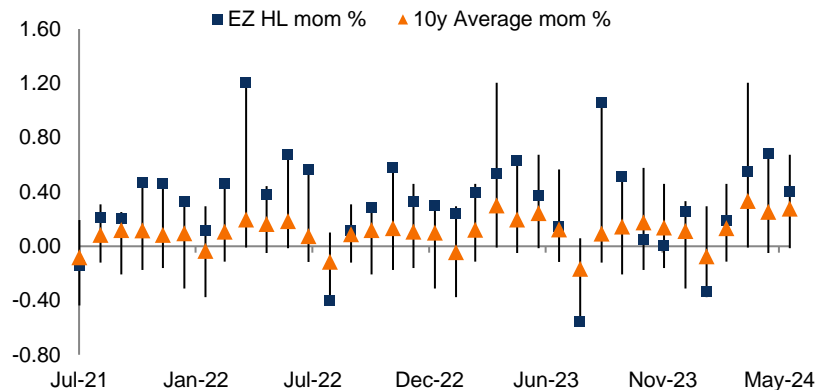
Eurozone inflation – online a little sticky, but not worrying

Inflation is moving back to target, but requires continued services disinflation

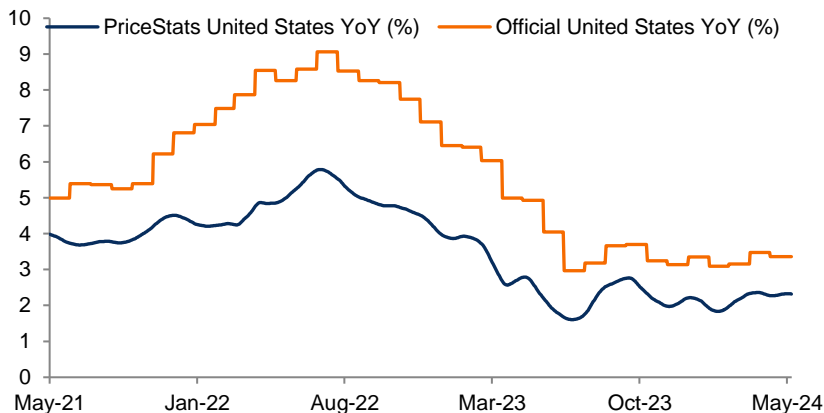
Eurozone Online Inflation stable – note, services and housing are not well represented



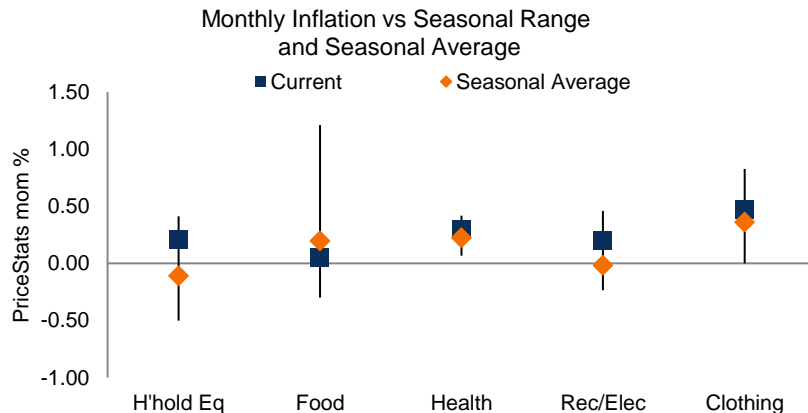
Online inflation is a little firmer than normal – but it's mostly energy



US Online Inflation has normalized

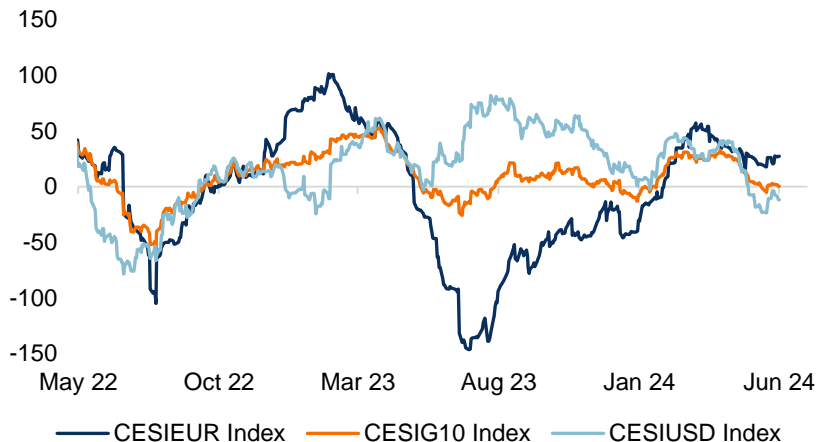


US Sectors - PriceStats

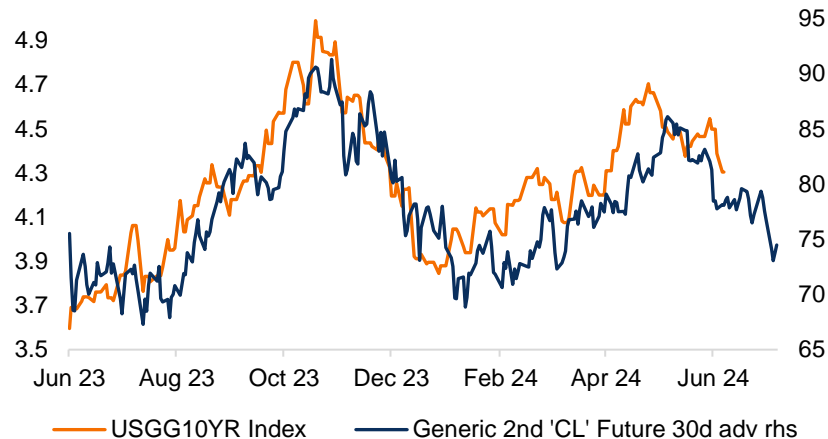


Global outlook

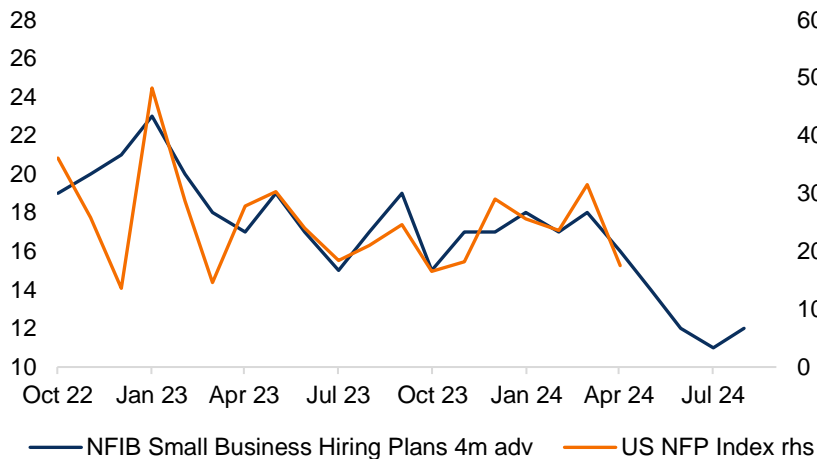
Fewer economic surprises across G10



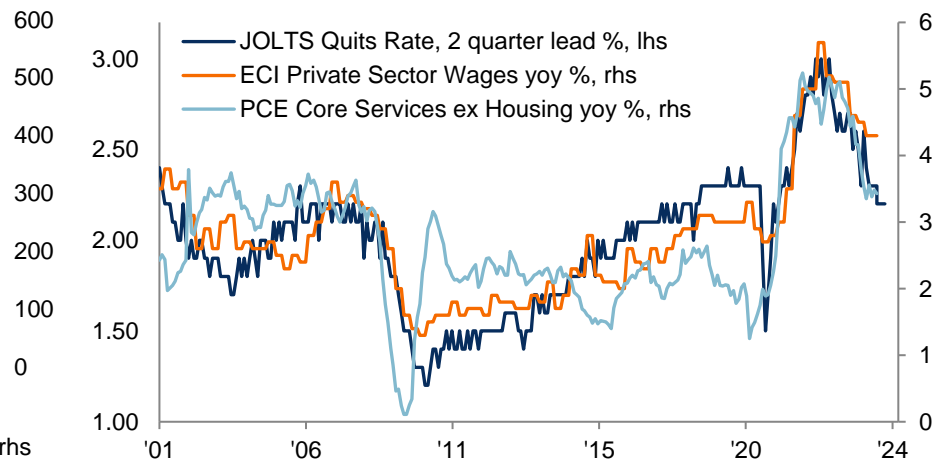
Treasury yields rise, and fall, with oil prices



US NFP vs NFIB hiring plans (4m advanced)



Quits Rate (and a low hire rate) indicates more balance in the labour market



Investment Climate – Sentiment bounce

FX holdings: Developed vs Emerging Markets

USD overweight, but unwinding – Commodity FX and GBP the main beneficiaries

	Flows	Flows Last Week	Holdings
Developed Markets			
US Dollar	23.6%	31.9%	80.2%
Euro	38.5%	58.2%	3.3%
Japanese Yen	34.3%	30.5%	43.7%
British Pound	75.2%	63.7%	42.8%
Swiss Franc	52.0%	50.5%	79.1%
Swedish Krona	31.7%	18.6%	67.2%
Norwegian Krone	32.1%	75.0%	94.0%
Canadian Dollar	97.0%	83.6%	9.8%
Australian Dollar	36.1%	8.8%	78.2%
New Zealand Dollar	94.0%	85.2%	62.9%
Hong Kong Dollar	97.6%	98.1%	92.7%
Singapore Dollar	97.9%	97.5%	43.7%

Piling back into EM carry (TRY, INR, IDR, MXN, BRL)

	Flows	Flows Last Week	Holdings
Emerging Markets			
Polish Zloty	24.4%	40.4%	48.5%
Hungarian Forint	26.3%	54.5%	36.7%
Czech Koruna	99.9%	100.0%	96.6%
South African Rand	35.6%	45.7%	32.0%
Turkish Lira	98.8%	99.3%	96.2%
Israeli Shekel	52.0%	53.8%	83.5%
Chinese Renminbi	77.0%	82.6%	79.0%
Korean Won	87.1%	68.4%	43.7%
Taiwanese Dollar	88.8%	86.2%	95.7%
Indian Rupee	92.8%	91.8%	62.8%
Indonesian Rupiah	87.9%	82.7%	94.8%
Malaysian Ringgit	5.8%	5.6%	46.3%
Philippine Peso	1.6%	0.9%	6.3%
Thai Baht	67.6%	75.7%	8.6%
Mexican Peso	81.4%	75.0%	18.3%
Brazilian Real	94.8%	95.7%	50.8%
Chilean Peso	33.4%	64.8%	87.0%
Colombian Peso	50.6%	45.2%	13.7%
Peruvian Nuevo Sol	50.6%	61.7%	32.0%

Percentiles of past flows.



The flow indicators have a 2-business-day lag.

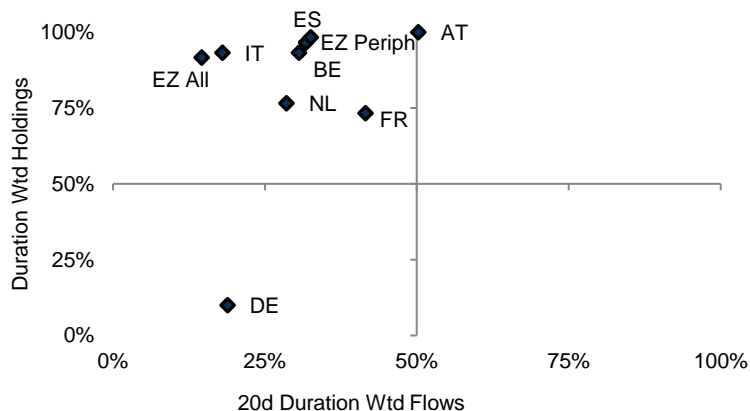
Source: State Street Global Markets

4 Source: State Street Global Markets, data as of 31 May 2024

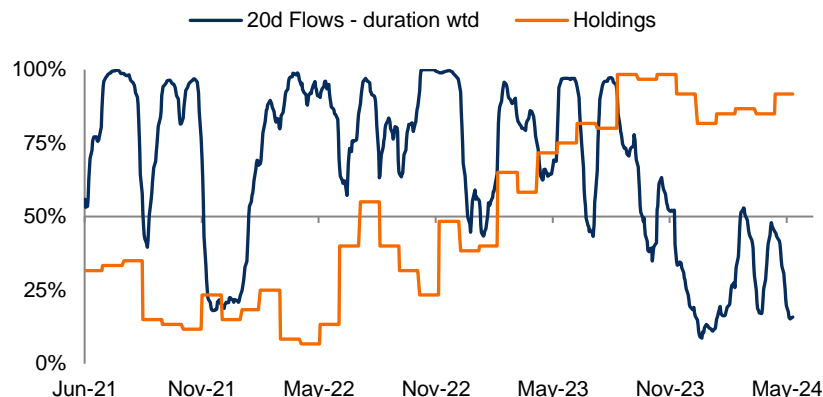
Investor Behaviour in Eurozone Assets and the EUR

Eurozone asset flows are on the weak side, in both equities and bonds; EURUSD underweight is large and static – foreign and domestic interest in EUR is low

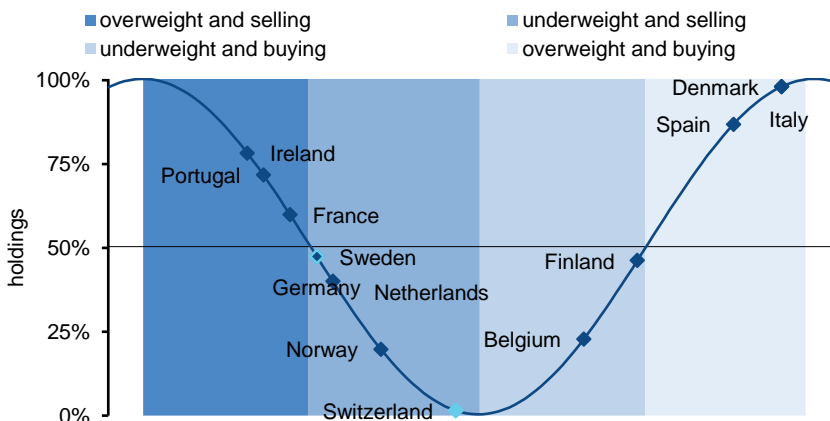
Sovereign Bond Flows and Holdings



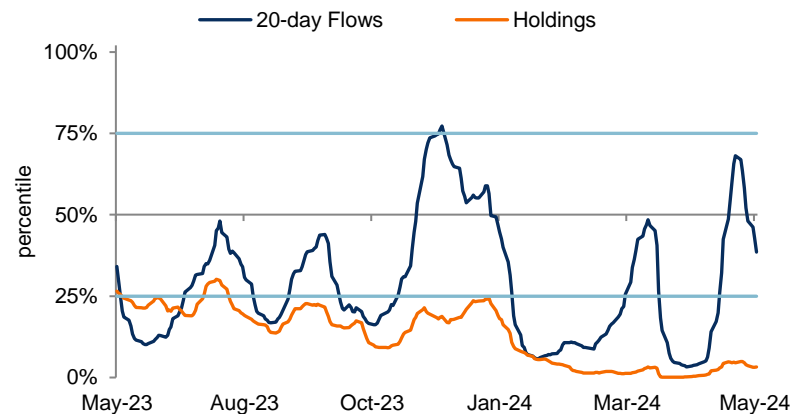
Investors are selling out of EZ government bonds



Equities – overweights getting extended in SP, IT, continued selling in FR



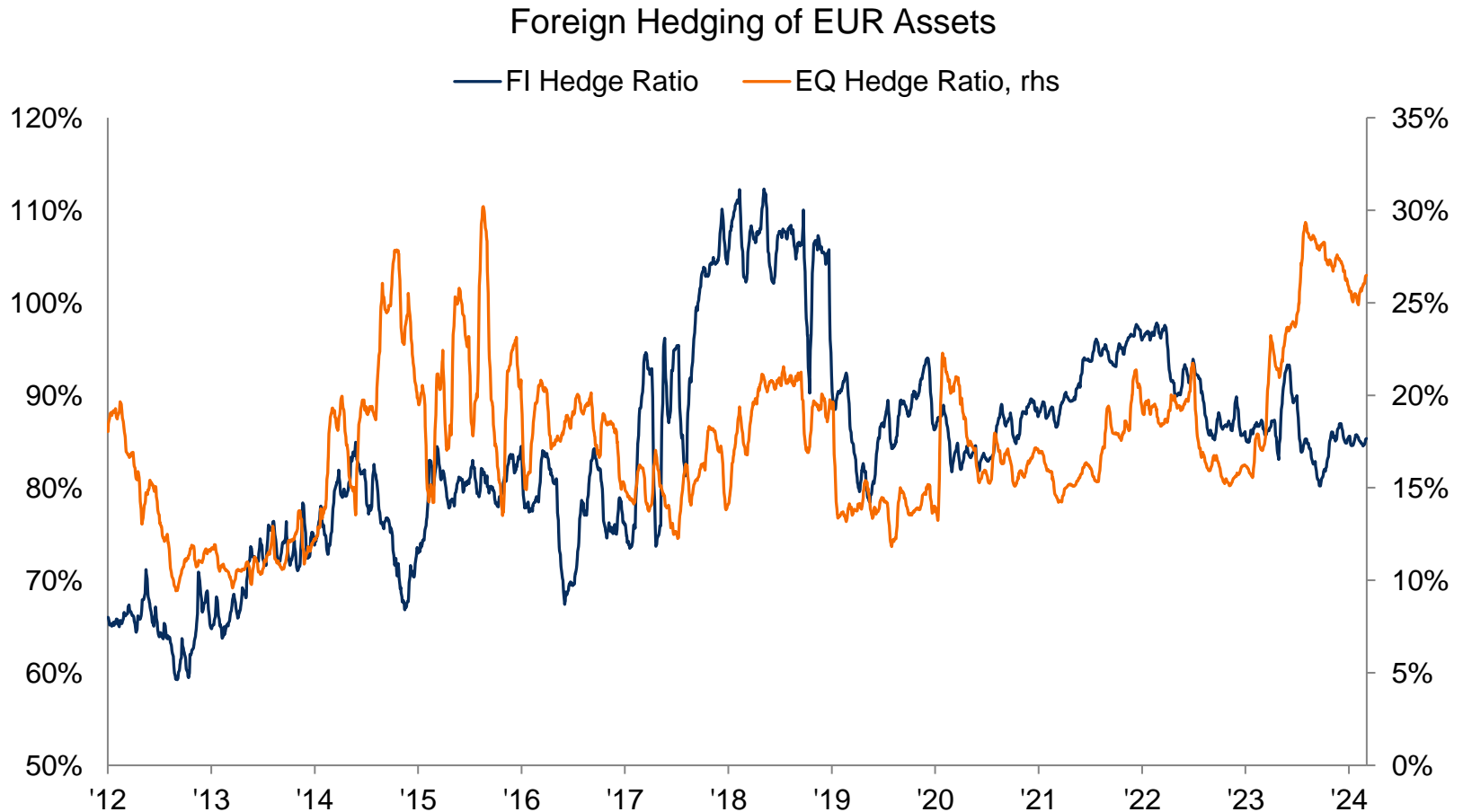
EUR – investor underweight still sizable



5 Source: State Street Global Markets, data as of 27 May 2024

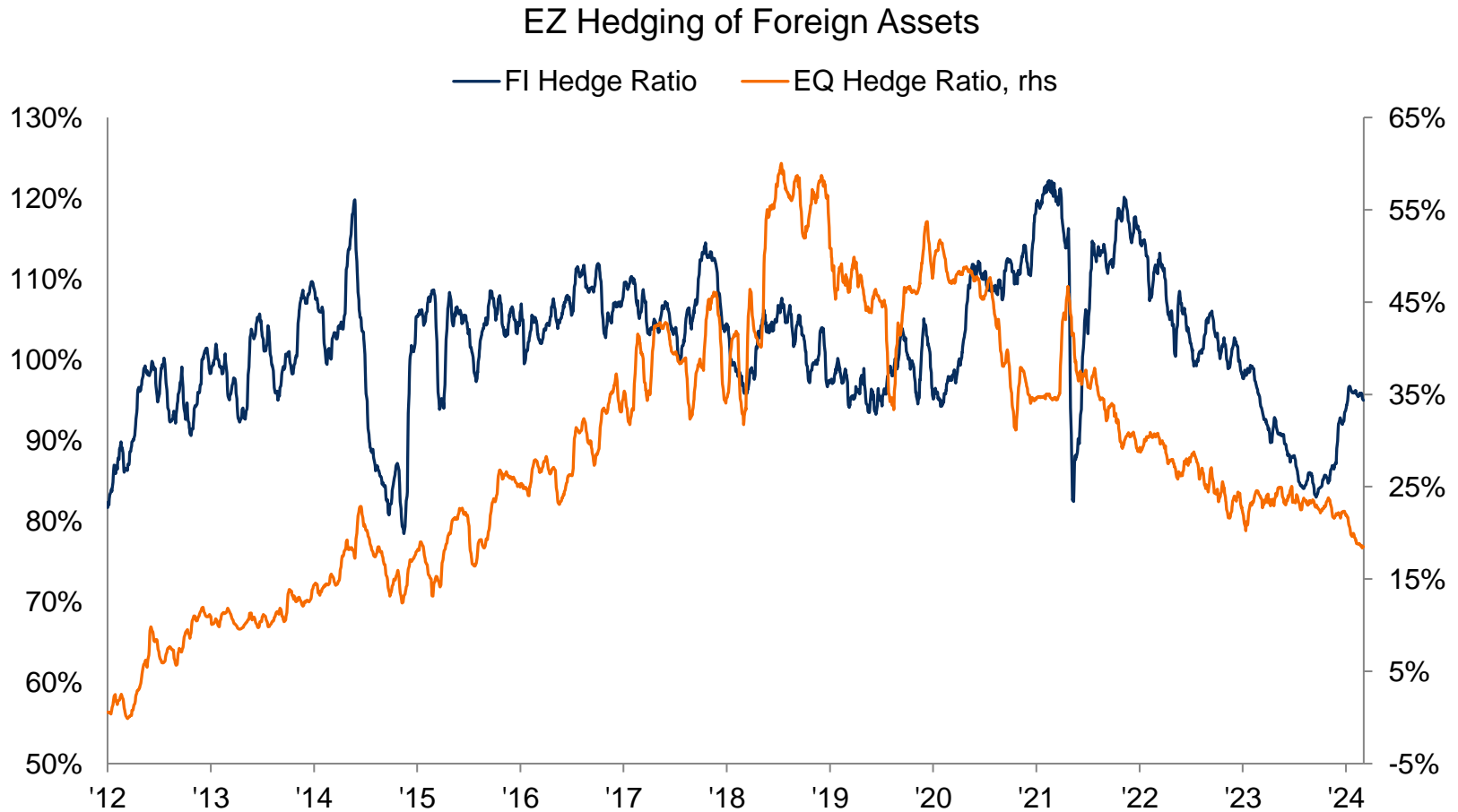
Hedge Ratio Estimates – Foreign Holders of EZ Assets

Equity hedge ratios near series highs; Fixed Income hedge ratios steady around 85%



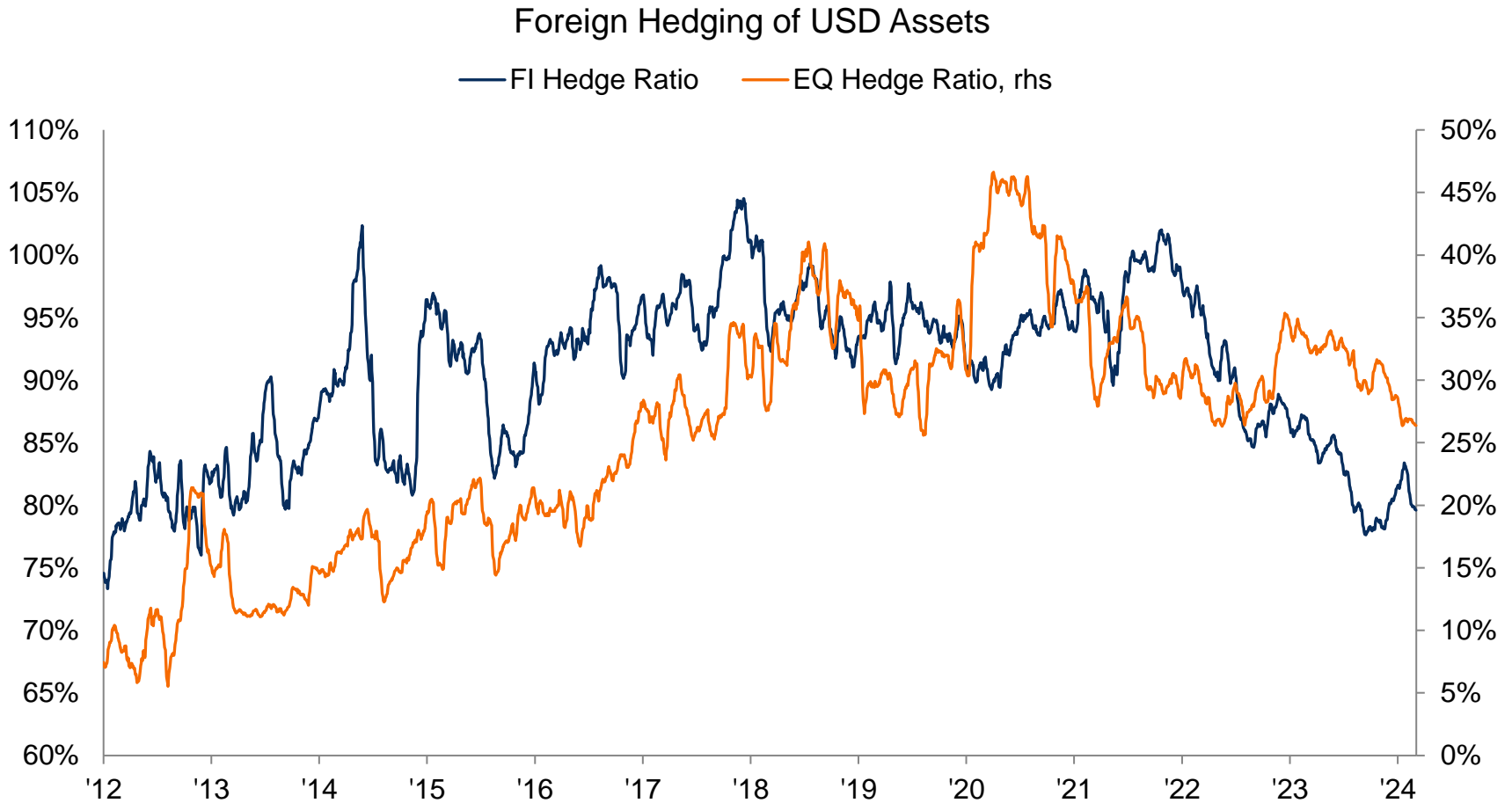
Hedge Ratio Estimates – EZ Holders of Foreign Assets

Eurozone investors hedging less FX risk back to EUR, especially in equities



Hedge Ratio Estimates – Foreign Holders of US Assets

Not surprisingly, hedging of USD assets is steadily falling



GlobalLink FX Platform discussion points

General Volume Trends (from GlobalLink platforms)

Key Takeaways

- Overall platform volumes continue to remain muted primarily due to the effects of consistent higher interest rates, real money cash holdings and their effect on hedging requirements.
- Following a challenging 2022, 2023 saw more consistent volumes in the real money space.
- 2024 year to date has seen some improvement versus Q4 2023 however, volumes have softened in Q2 versus Q1 with volumes for April and May down ~ 5% versus the yearly average.
- Changes in recent capital regulation has seen a shift of volumes from U.S. based banking entities to those located in the E.U.

Currency Specific Trends (from GlobalLink platforms)

Key Takeaways

- USDJPY volumes for real money lower in April and May however volatility at the end of April saw increased trading with institutional clients.
- XAUUSD there has been a recent increase in trading with our institutional clients who traded the largest volume in three years in April.

Real Money Trends

Key Takeaways

- Client are seeking more automation in their execution. May saw the highest yearly volume of auto execution with an increase of 17% from March to May:
 - These trends in automation are both in a 'low' or 'no' touch capacity.
 - This trend is seeing clients wishing to automate small trades in order to allow them to focus their limited resources on larger or more complex trades.
 - For larger trades clients are seeking greater data decision capabilities to select counterparties or execution methods.
- T+1 is increasing focus on follow-the-sun operating models. This is driving increased emphasis on seamless integration between execution and post trade systems. Venues such as FX Connect are extending closing times particularly in Europe in order to facilitate clients T+1 trading liquidity needs.

Commentary on Algo Usage

Key Takeaways

- There has been a shift in client preference towards more sophisticated, opportunistic algorithms as opposed to more traditional TWAP and VWAP algorithms.
- Improved transparency, education and client understanding is leading to clients favoring algorithms that can capitalize on market opportunities more effectively.

Discussion Points

- 1) Do participants generally subscribe to "higher for longer" and a high r^* , or that we eventually revert to rates coming down towards pre Covid levels?
- 2) Are developed markets too relaxed about the risk of the US elections considering the FX moves we have seen after the Mexico, SA and Indian elections?
- 3) Will gold continue to strengthen and for how long?

Appendix

FX market conditions have normalized

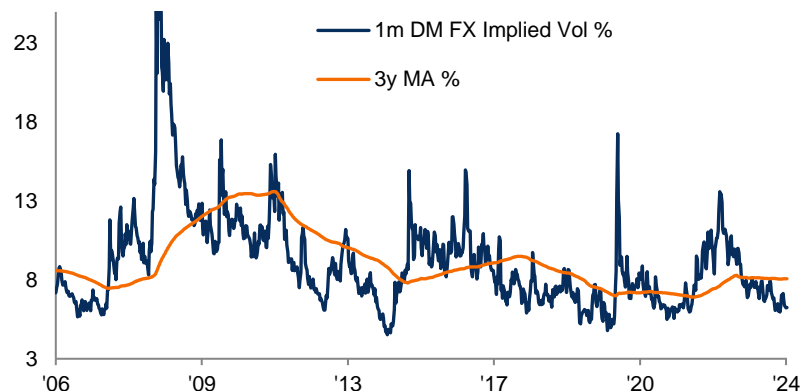
Rate volatility normalization suggests a volatility trough

DM FX volatility is back to a trough and well below long-run moving averages, reflecting very low realized volatility and a more defined rate outlook. The bar for further tightening is very high in most economies.

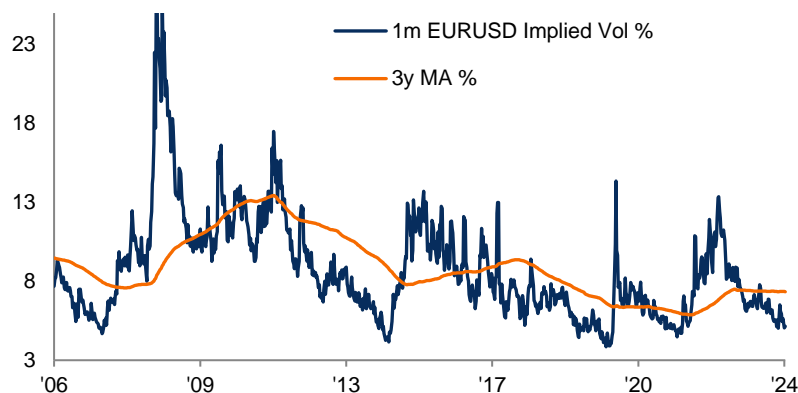
EURUSD reflects this broader dynamic with the ECB poised to begin easing in June and the Fed likely later this year/early 2025. The right-hand side of the distribution looks cut off, for now.

The premium paid for EURUSD downside is normal, in line with consensus EURUSD positioning and, therefore, consistent with forward rate differentials.

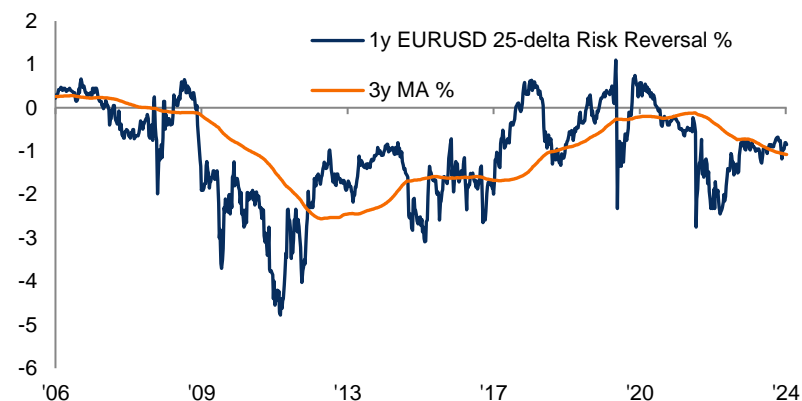
DM Vol environment



EURUSD Volatility



EURUSD Skew



Source: State Street Global Markets, Bloomberg

EURUSD trading conditions are unique

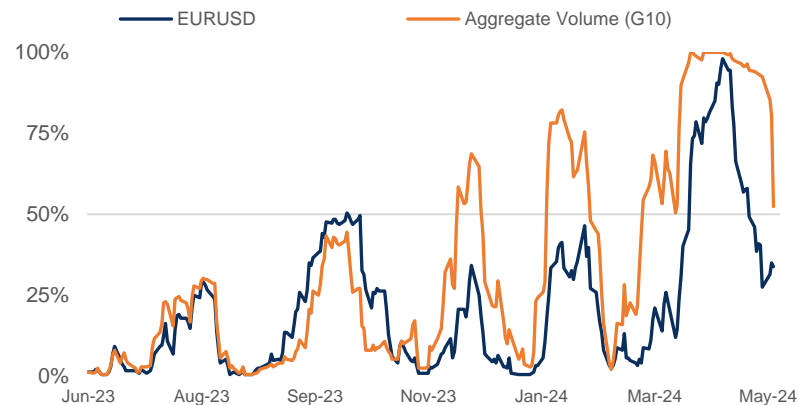
Interbank conditions suggest less interest but no effect on spreads

EURUSD volumes are normal, but currently weaker than interest in other G10 pairs. G10 volumes have picked up in aggregate to return to above median levels, with USDJPY and USDCHF the biggest laggards with below median volumes in the past week, and weaker activity in EURUSD too.

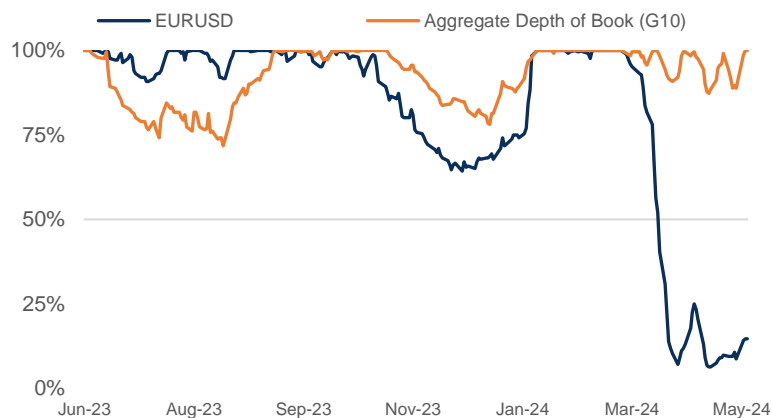
EURUSD order books at lightest levels of last year (extreme reading is down to 1y percentile window – order books are normal over longer histories).

Lower volumes and a drop in liquidity have not led to wider spreads. Indeed, trading costs are currently at the biggest discount to a trailing one-year median spread.

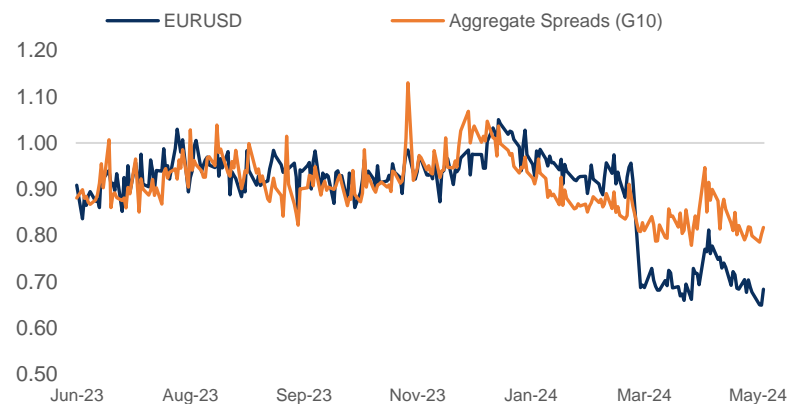
Volume (20d MA, 1y percentile)



Liquidity (size of order book, 20d MA, 1y percentile)



Spreads (current / 1y median)



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