

# Chart Pack for ECB FXCG Meeting September 2022



**STATE STREET**

# G10 FX conditions, pandemic, war and rate hikes

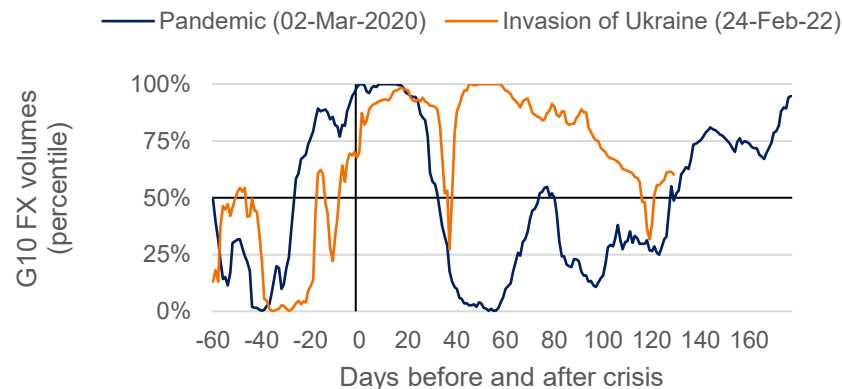
## Remarkable resilience

Following a shock we typically see a spike in volumes as investors are forced to trade, followed by a decline in liquidity and a spike in spreads.

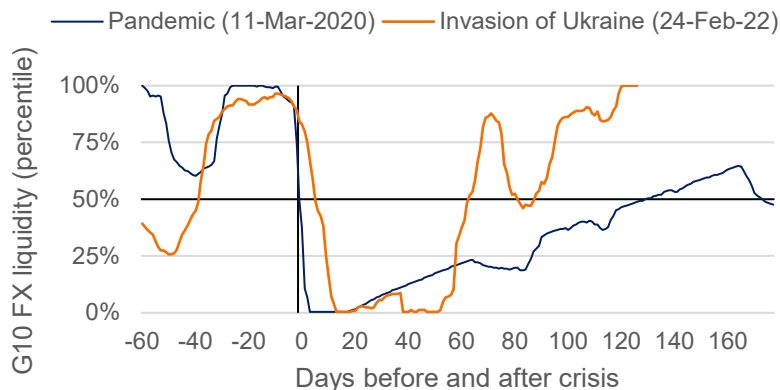
2020 followed this pattern clearly, but 2022 has been very different.

Volumes recovered quickly and remain close to average levels. Liquidity is more than robust, but there has been a modest widening in spreads.

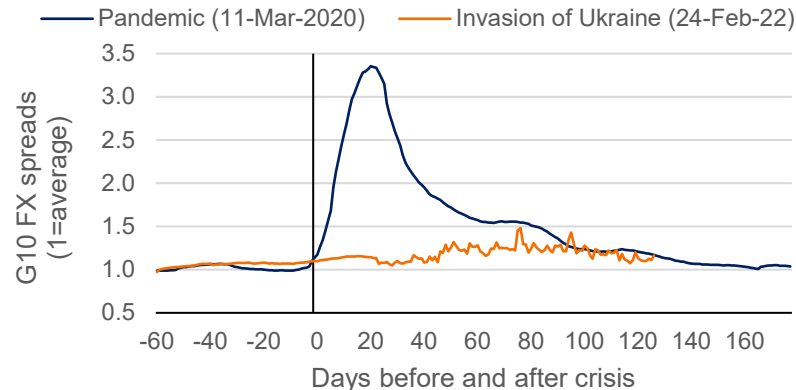
### Volumes (percentile)



### Liquidity (depth of book)



### Spreads



# Crises have shifted the volatility regime

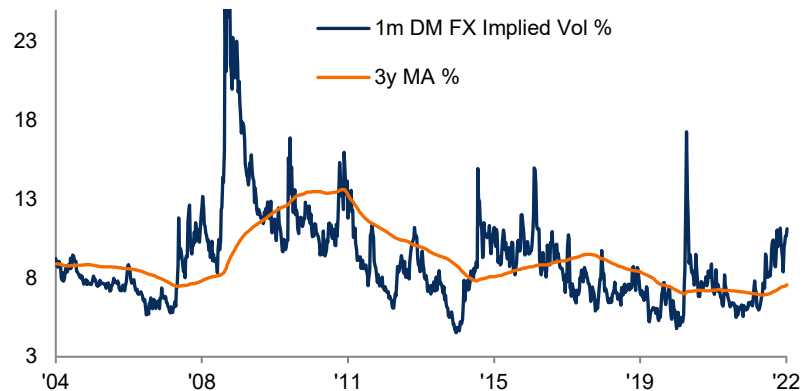
## Long-term equilibrium in FX volatility is now higher

DM FX implied volatility is priced at a significant premium to a rising long-run moving average of implied volatility – not only has vol regime shifted, implieds are priced for a larger amount of uncertainty relative to the rising trend.

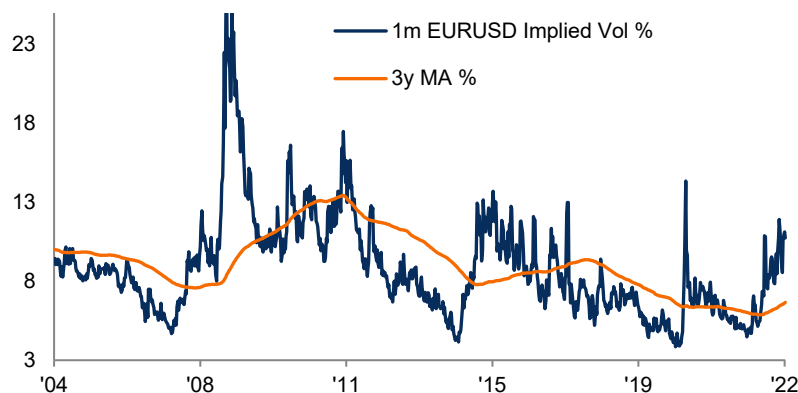
Premium of EURUSD to its long-run moving average is wider than that for all DM pairs – comparable to EZ fiscal crisis era (2010-2012 on accompanying charts).

Likewise, the premium paid for EURUSD downside relative to upside is much wider than is typically normal – size of premium relative to norm is again similar to EZ fiscal crisis era.

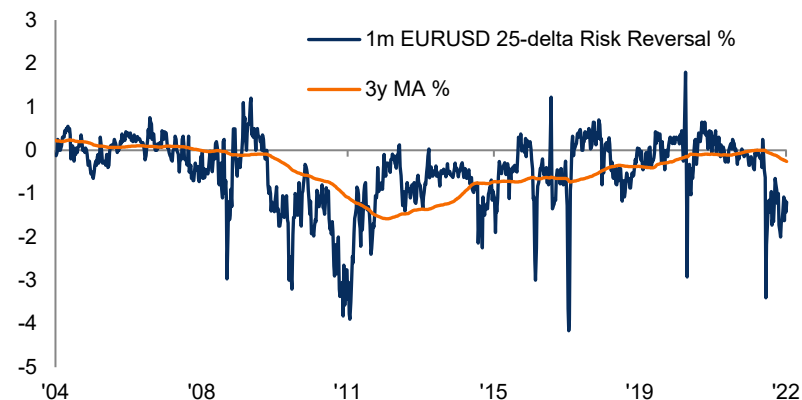
### DM Vol environment



### EURUSD Volatility



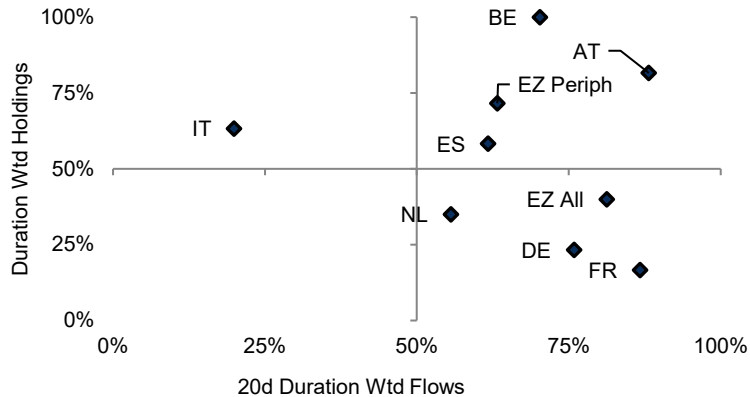
### EURUSD Skew



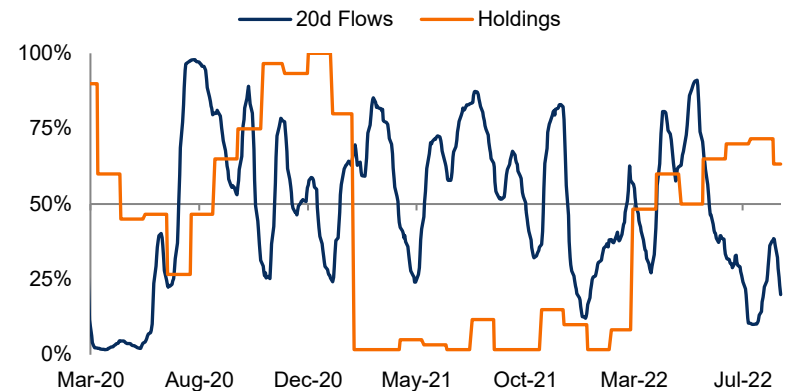
# Investor Behaviour in Eurozone Assets and the EUR

Inflows into Eurozone assets look decent; EUR holdings are now low, hedging higher

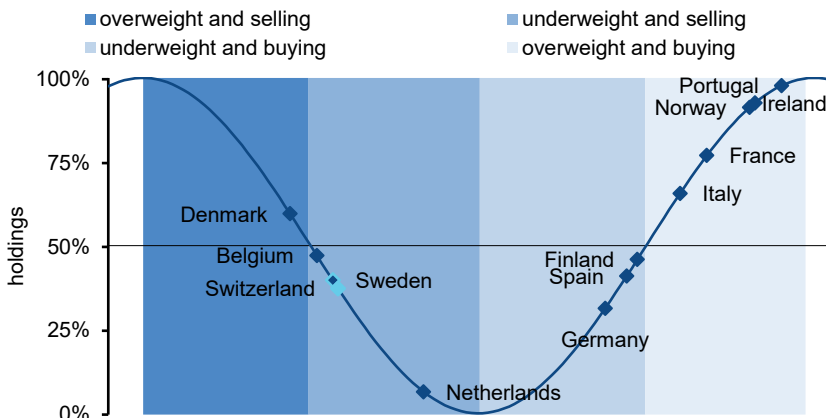
### Sovereign Bond Flows and Holdings



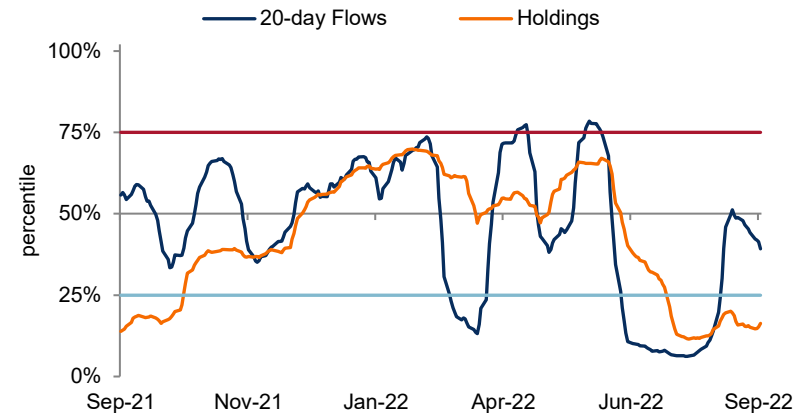
### Investors are no longer underweight BTPs – but starting to turn



### Equities – overweights getting extended in FR, IT, but underweights paired in DE

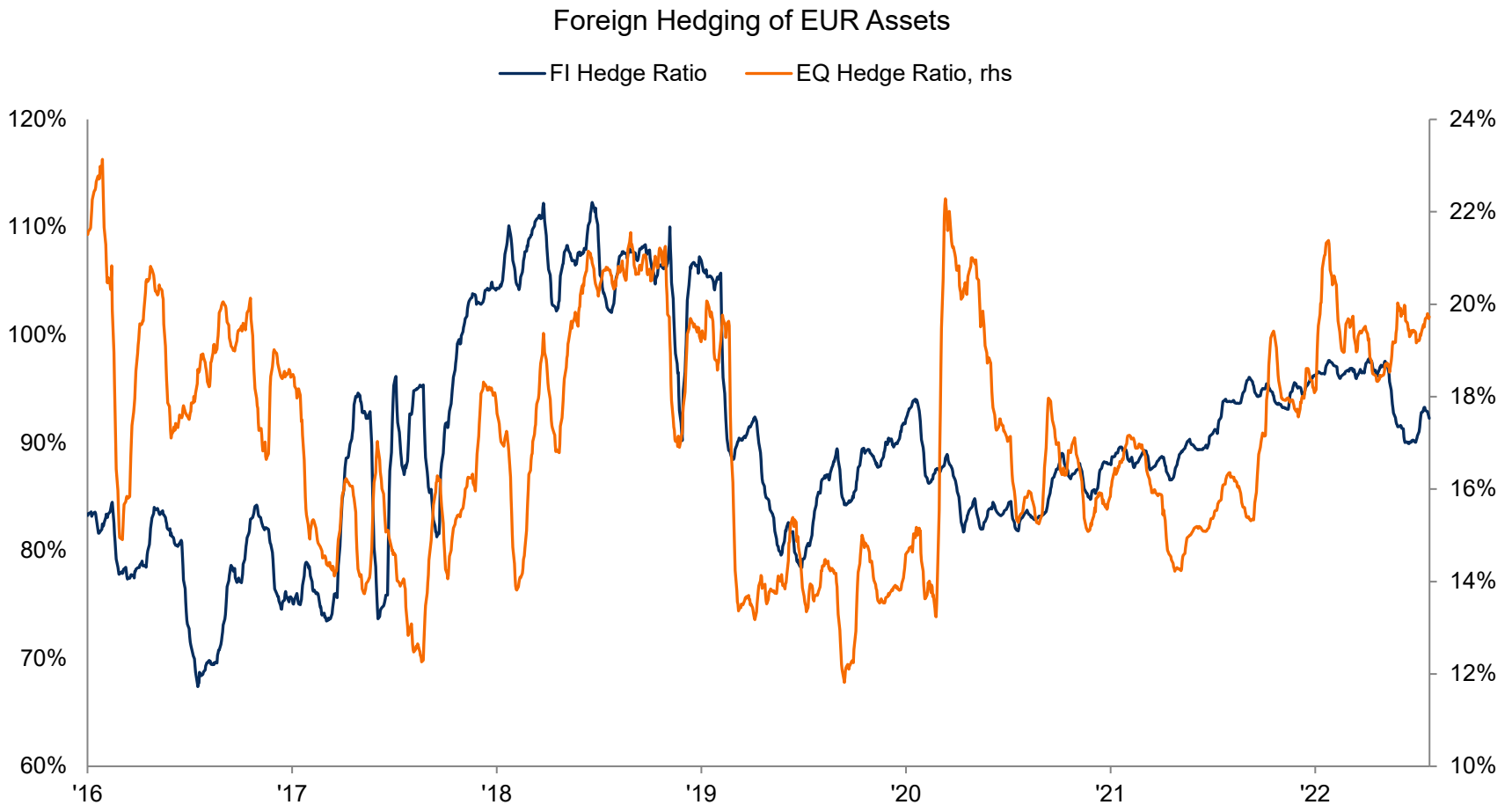


### EUR – investor underweight still sizable



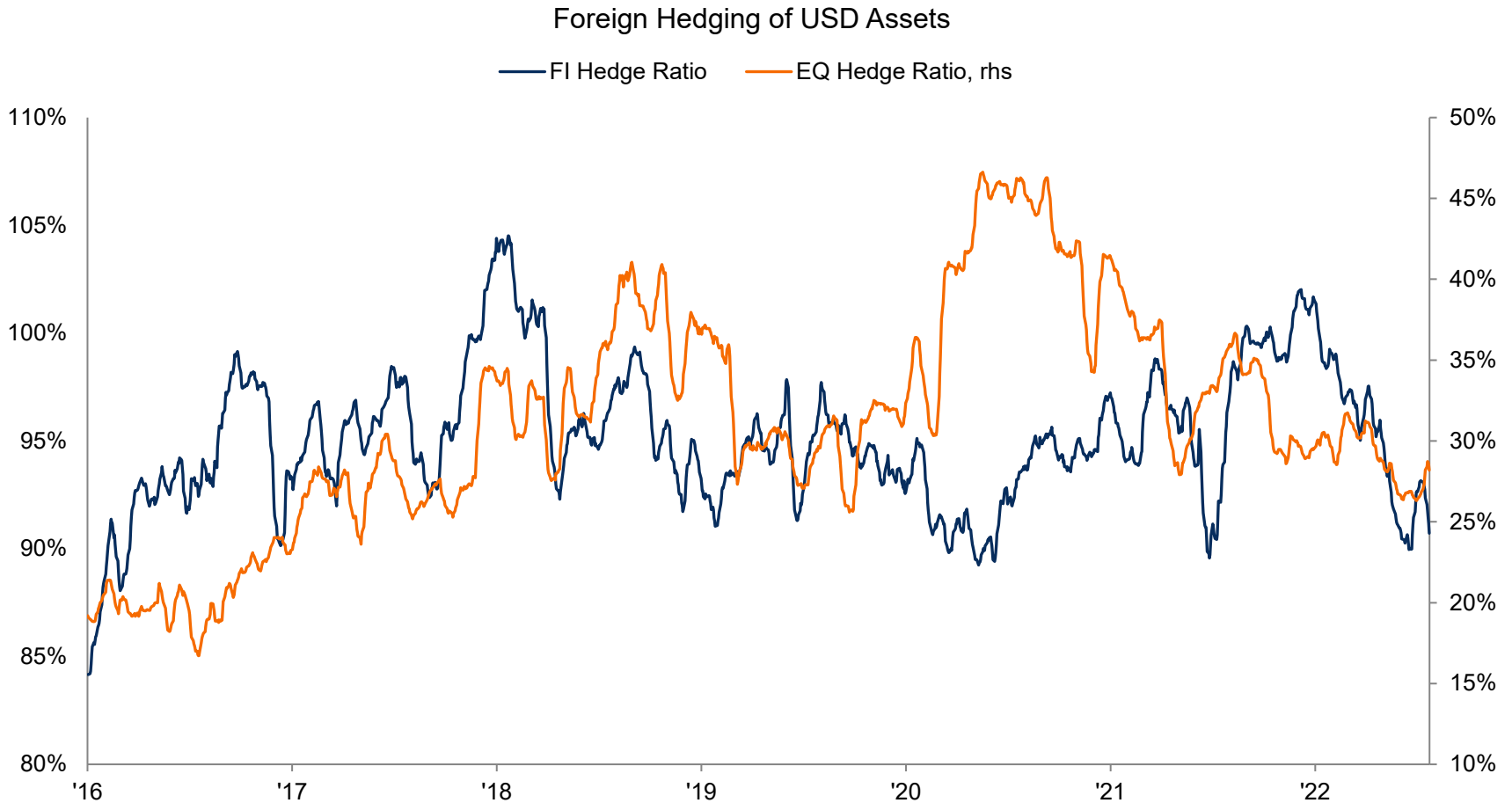
# Hedge Ratio Estimates – Foreign Holders of EZ Assets

Desire to hedge EUR risk has risen over the last year in both equities and bonds



# Hedge Ratio Estimates – Foreign Holders of US Assets

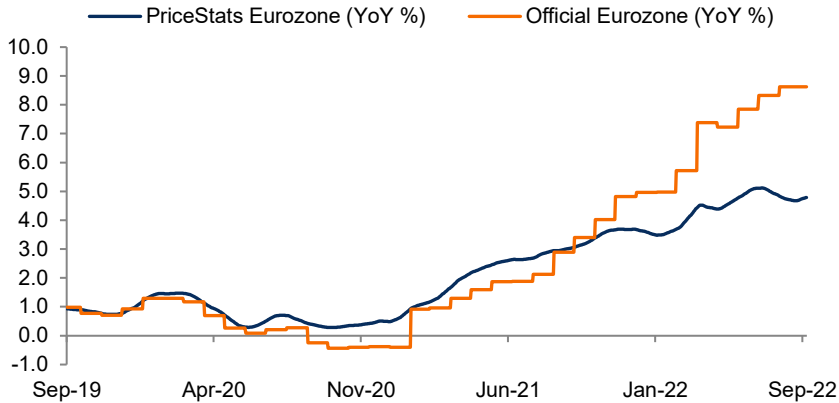
Hedging of US assets is low relative to last five years – but has been lower during previous strong USD regimes (1998-2001, 2014-2017)



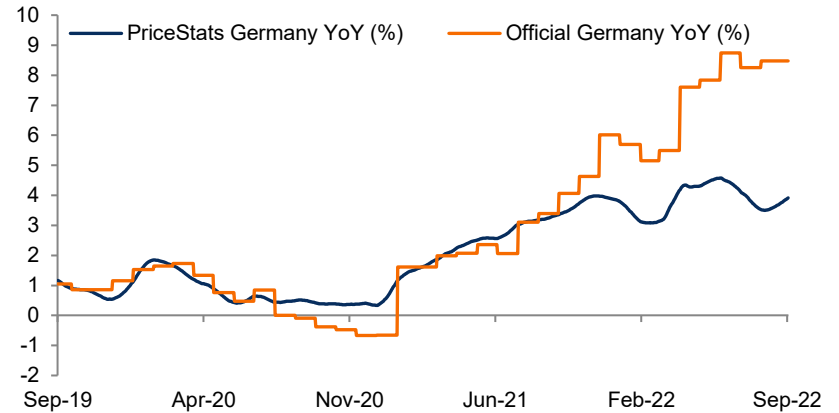
# Eurozone inflation –topping out but still very strong

## Inflation sustained well above target

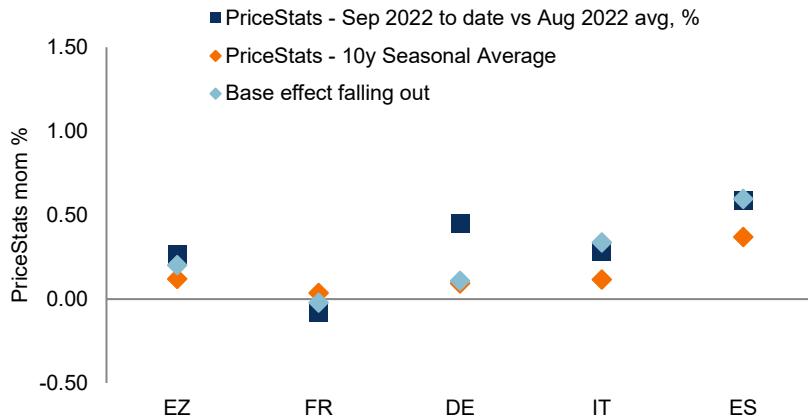
**Eurozone Online Inflation – note, housing and reopening sectors not well represented online and explain much of the gap**



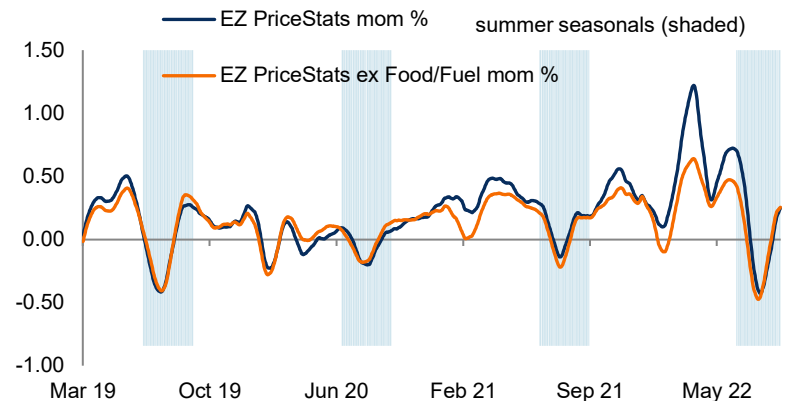
**Germany**



**Limited data for September, but already looking strong**



**Bouncing back faster than normal**



7 Source: State Street Global Markets, Bloomberg, data as of 10 Sep 2022

# Investment Climate – Sentiment bounce

## FX holdings: Developed vs Emerging Markets

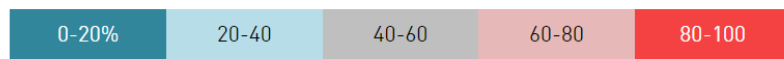
### FX holdings show Strong Dollar overweight in Developed Markets

	Flows	Flows Last Week	Holdings
<b>Developed Markets</b>			
US Dollar	79.5%	70.8%	98.3%
Euro	32.5%	41.4%	19.0%
Japanese Yen	19.4%	16.1%	26.4%
British Pound	22.3%	36.3%	10.4%
Swiss Franc	20.4%	31.1%	55.2%
Swedish Krona	47.2%	38.3%	64.8%
Norwegian Krone	47.4%	20.2%	44.3%
Canadian Dollar	36.7%	46.4%	74.2%
Australian Dollar	59.7%	55.9%	66.2%
New Zealand Dollar	34.9%	36.0%	14.7%
Hong Kong Dollar	70.7%	67.6%	99.5%
Singapore Dollar	14.1%	13.7%	68.2%

### Emerging Markets paint a picture of Underweight currencies

Emerging Markets			
Polish Zloty	46.5%	33.5%	21.1%
Hungarian Forint	68.6%	61.5%	93.9%
Czech Koruna	30.1%	24.5%	0.3%
South African Rand	52.1%	32.8%	80.7%
Turkish Lira	80.3%	69.6%	81.2%
Israeli Shekel	78.0%	87.2%	46.9%
Chinese Renminbi	49.3%	41.7%	23.4%
Korean Won	15.5%	24.4%	28.7%
Taiwanese Dollar	11.0%	21.7%	49.8%
Indian Rupee	62.1%	74.3%	45.7%
Indonesian Rupiah	72.9%	76.1%	52.0%
Malaysian Ringgit	33.2%	33.2%	13.4%
Philippine Peso	58.6%	42.1%	15.8%
Thai Baht	0.7%	11.3%	35.6%
Mexican Peso	59.3%	80.7%	29.0%
Brazilian Real	29.7%	34.1%	1.3%
Chilean Peso	32.7%	31.2%	16.6%
Colombian Peso	39.3%	25.8%	44.6%
Peruvian Nuevo Sol	43.3%	51.9%	27.7%

Percentiles of past flows.



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

Source: State Street Global Markets



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