# Chart Pack for ECB FXCG Meeting June 2024

Peter Vincent Head of FX Trading EMEA

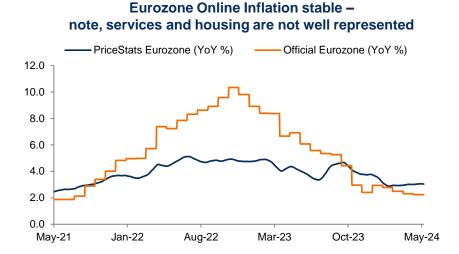
Kate Lowe Head of GlobalLink FX



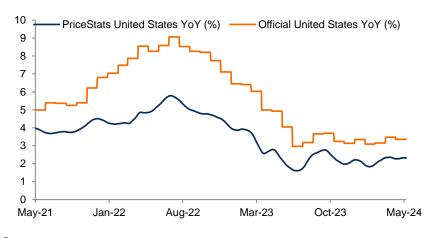
<u>All supporting material can be found on our website IR3</u> 6691556.1.1.EMEA.

### Eurozone inflation - online a little sticky, but not worrying

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



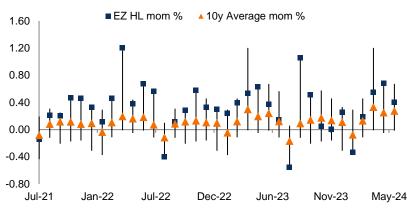
#### **US Online Inflation has normalized**



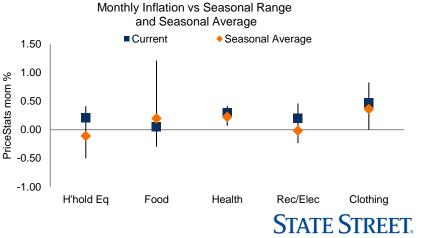
2 Source: State Street Global Markets, PriceStats

Information Classification: General

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



#### **US Sectors - PriceStats**

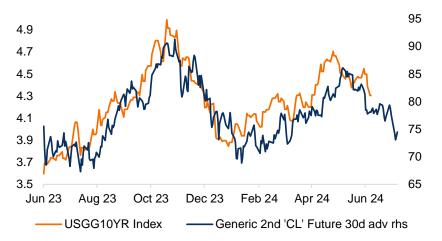


### **Global outlook**

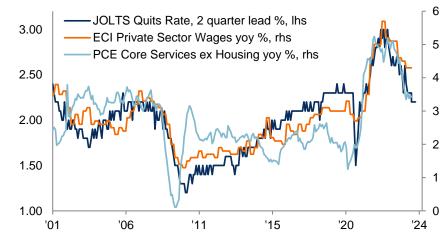


Fewer economic surprises across G10

Treasury yields rise, and fall, with oil prices



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



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US NFP vs NFIB hiring plans (4m advanced)



3 Source: State Street Global Markets, Bloomberg

### Investment Climate – Sentiment bounce

**FX holdings: Developed vs Emerging Markets** 

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

	Flows Flows Last Wee		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%	
Norw egian 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)

Polish Zloty 24.4% 40.4%   Hungarian Forint 26.3% 54.5%   Czech Koruna 99.9% 100.0%   South African Rand 35.6% 45.7%   Turkish Lira 98.8% 99.3%   Israeli Shekel 52.0% 53.8%	48.5% 36.7% 96.6% 32.0% 96.2% 83.5%
Czech Koruna   99.9%   100.0%     South African Rand   35.6%   45.7%     Turkish Lira   98.8%   99.3%	96.6% 32.0% 96.2% 83.5%
South African Rand   35.6%   45.7%     Turkish Lira   98.8%   99.3%	32.0% 96.2% 83.5%
Turkish Lira 98.8% 99.3%	96.2% 83.5%
	83.5%
Israeli Shekel 52.0% 53.8%	
	70.00/
	70.00/
Chinese Renminbi 77.0% 82.6%	79.0%
Korean Won 87.1% 68.4%	43.7%
Taiw anese Dollar88.8%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.

0-20%	20-40	40-60	60-80	80-100
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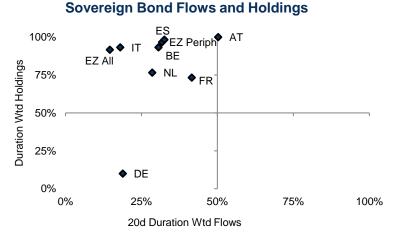
The flow indicators have a 2-business-day lag. Source: State Street Global Markets

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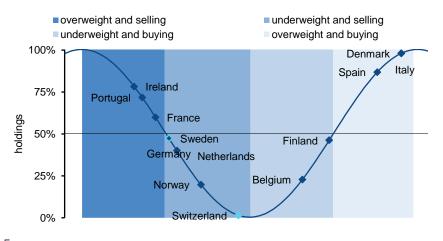
4 Source: State Street Global Markets, data as of 31 May 2024

### 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



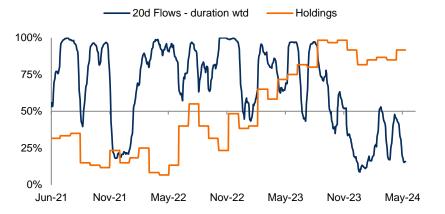
### Equities – overweights getting extended in SP, IT, continued selling in FR



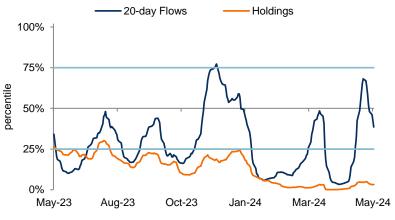
5 Source: State Street Global Markets, data as of 27 May 2024

Information Classification: General

#### Investors are selling out of EZ government bonds



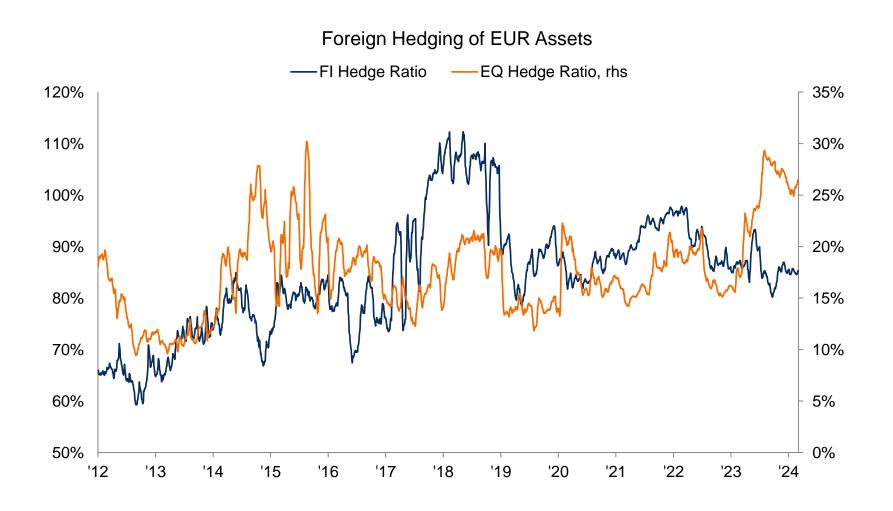
#### EUR – investor underweight still sizable



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### Hedge Ratio Estimates – Foreign Holders of EZ Assets

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



6 Source: State Street Global Markets

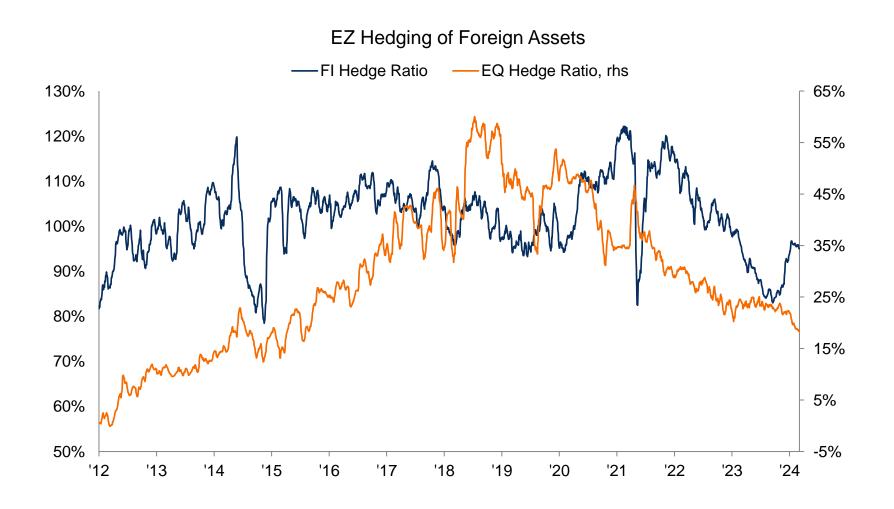
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### Hedge Ratio Estimates – EZ Holders of Foreign Assets

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



7 Source: State Street Global Markets

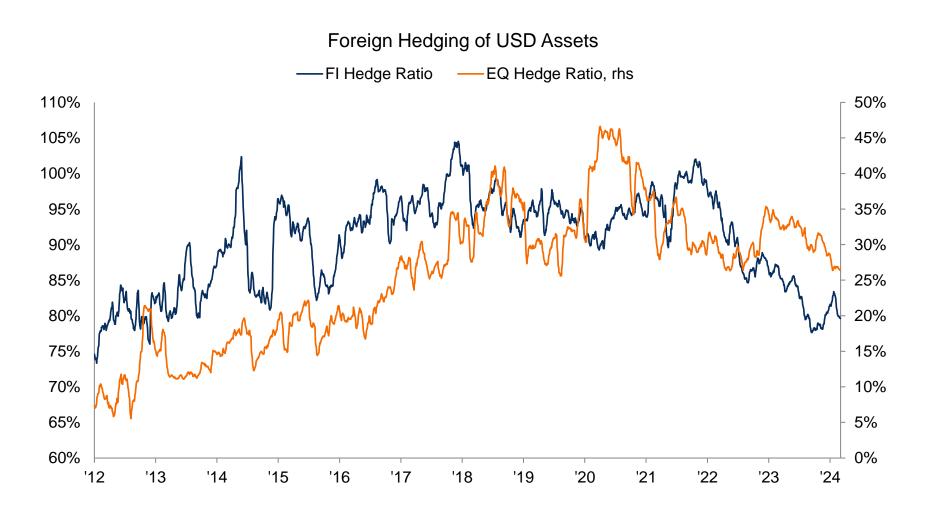
Information Classification: General

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### Hedge Ratio Estimates – Foreign Holders of US Assets

Not surprisingly, hedging of USD assets is steadily falling



8 Source: State Street Global Markets

Information Classification: General

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### 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.

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9 Source: State Street Global Markets

### **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?



#### **Global Markets**

## Appendix

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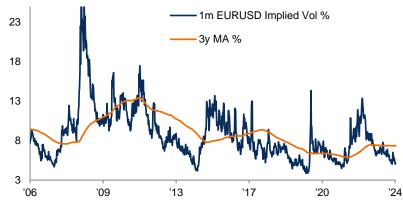
### FX market conditions have normalized

Rate volatility normalization suggests a volatility trough

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

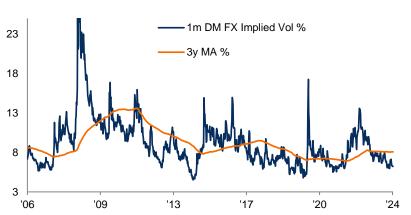
EURUSD reflects this broader dynamic with the ECB poised to begin easing in June and the Fed likely later this year/early 2025. The right-hand side of the distribution looks cut off, for now.

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









#### **DM Vol environment**





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### EURUSD trading conditions are unique

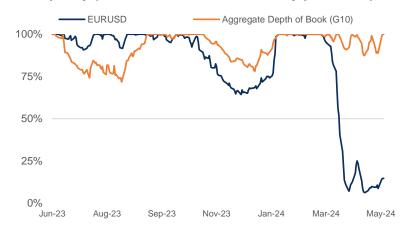
#### Interbank conditions suggest less interest but no effect on spreads

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.

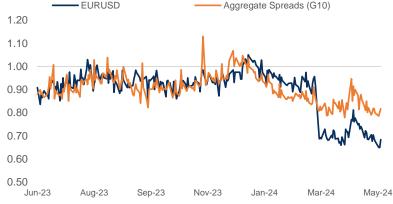
#### Liquidity (size of order book, 20d MA, 1y percentile)



13 Source: State Street Global Markets, Reuters, EBS



Volume (20d MA, 1y percentile)



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