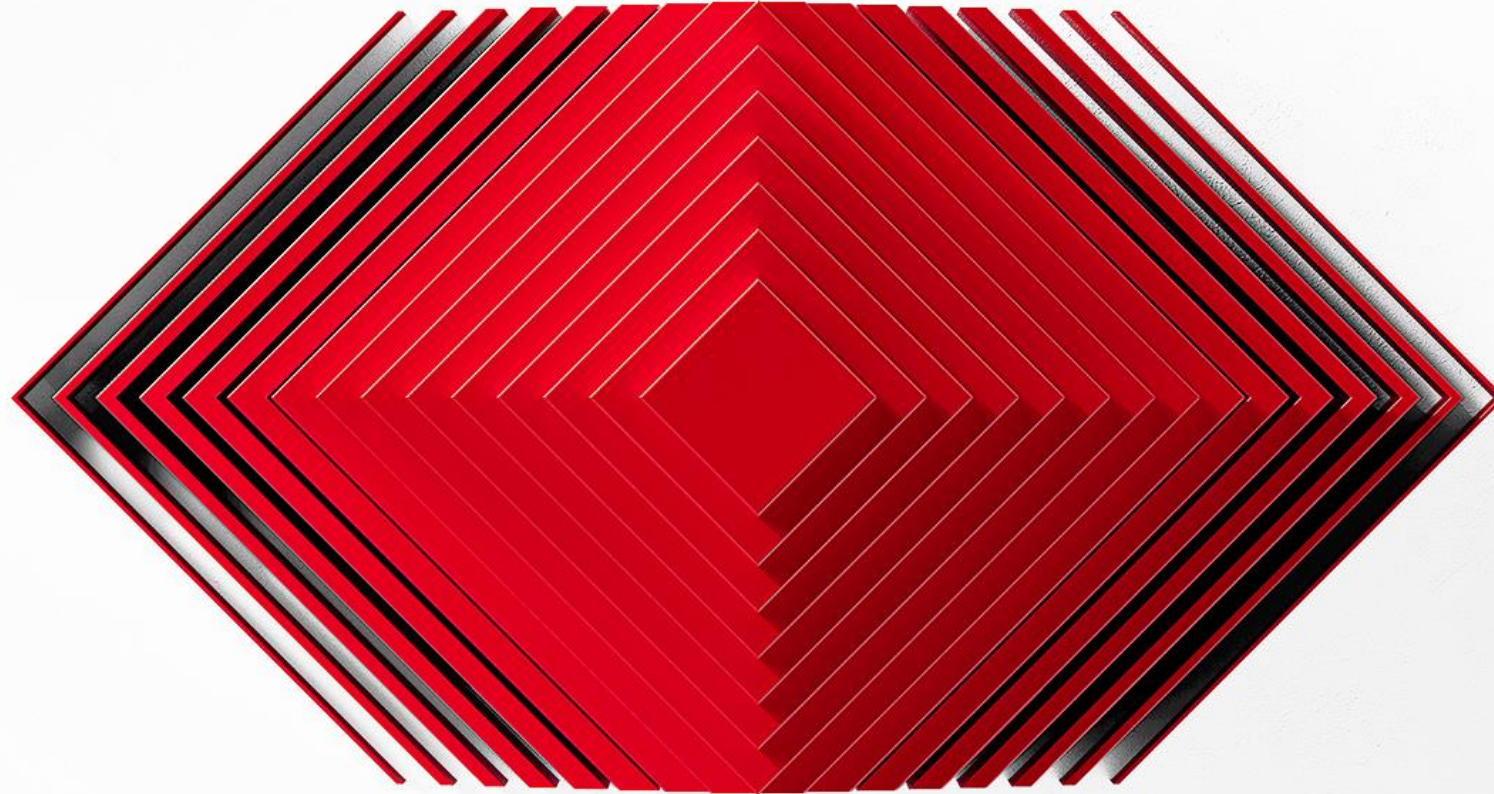


ECB Foreign Exchange Contact Group

Review of recent markets developments and outlook



Yasemin Artar

Managing Director

Head of Global Markets Corporate Sales Europe



FX stories and themes driving the market

RMB performance and internationalisation

Insights from G10 & EM FX volatility markets

FX Spot market structure developments

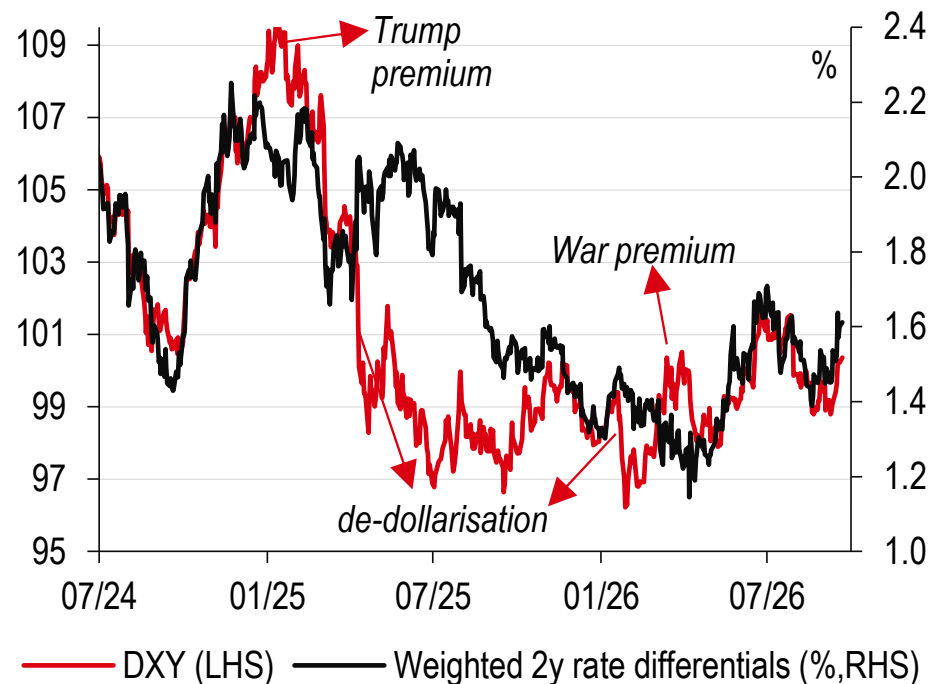
Digital assets developments

FX stories and themes driving the market – G10 & EM

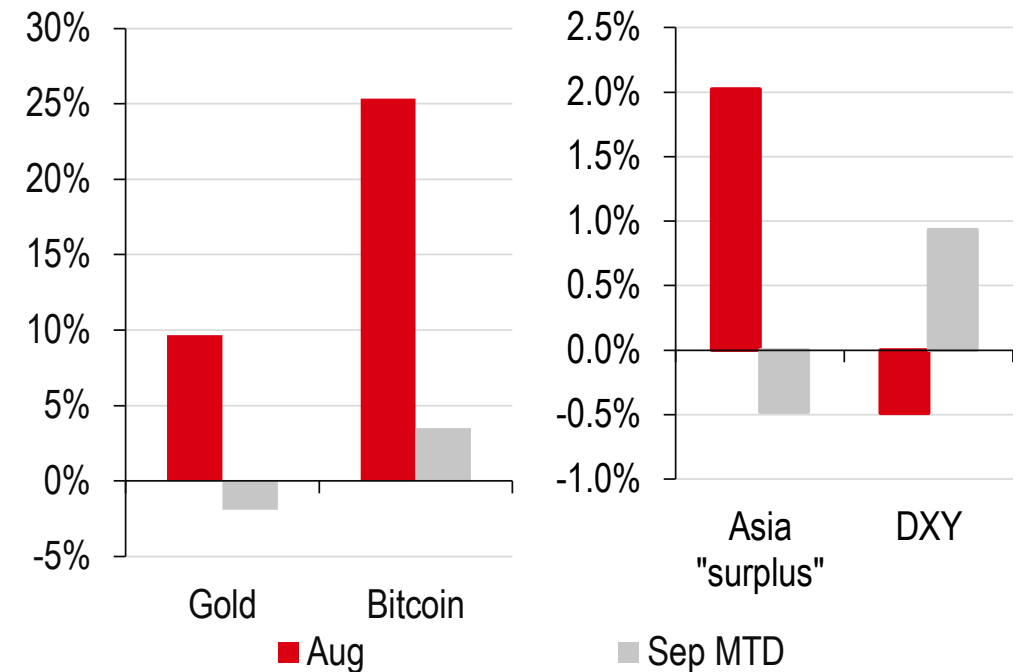
The FOMC hiked rates, following up on Jackson Hole

The Fed's policy credibility has been restored and the USD is recovering

Relative 2-year rate differentials are rising in support of the DXY



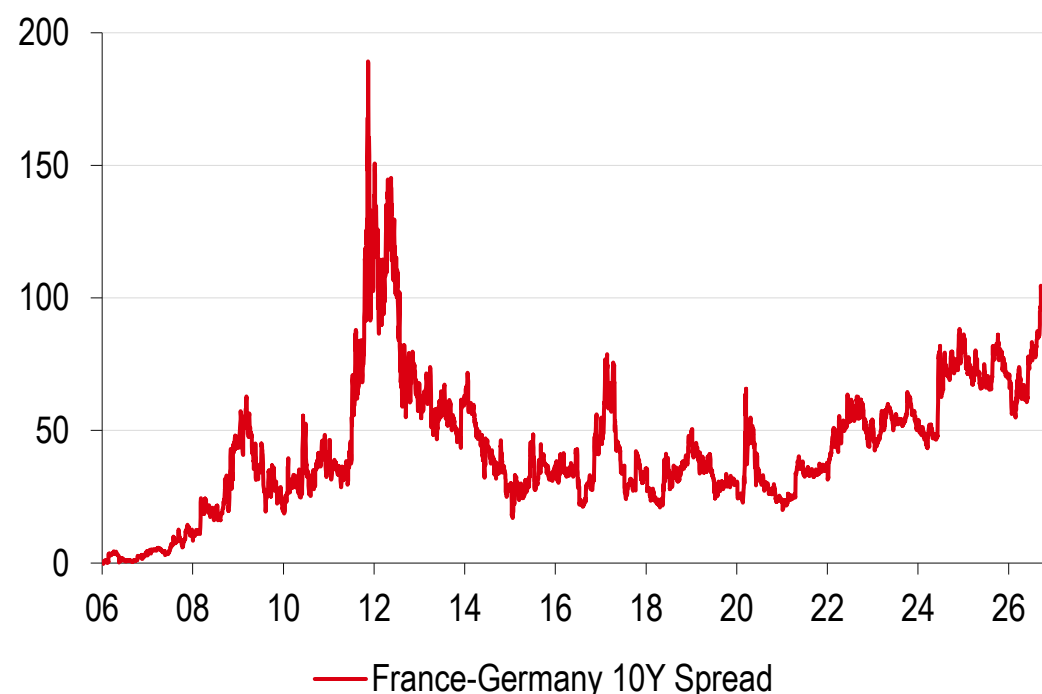
The "USD debasement" trade in August is over



The euro remains sensitive to relative rates and energy dynamics

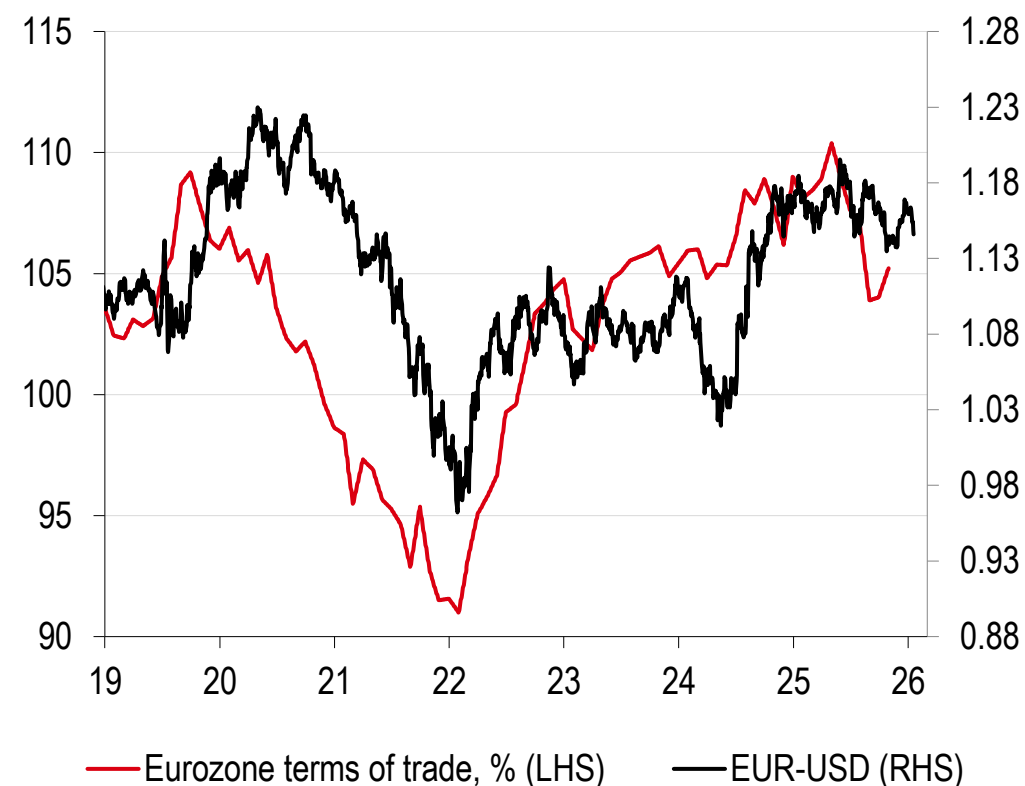
French spread risk stayed elevated, while the Eurozone's terms of trade remained sensitive to renewed gas pressure

French political risk remained elevated well ahead of the presidential election: France – Germany spread - Above 2024 high



Source: HSBC, Bloomberg

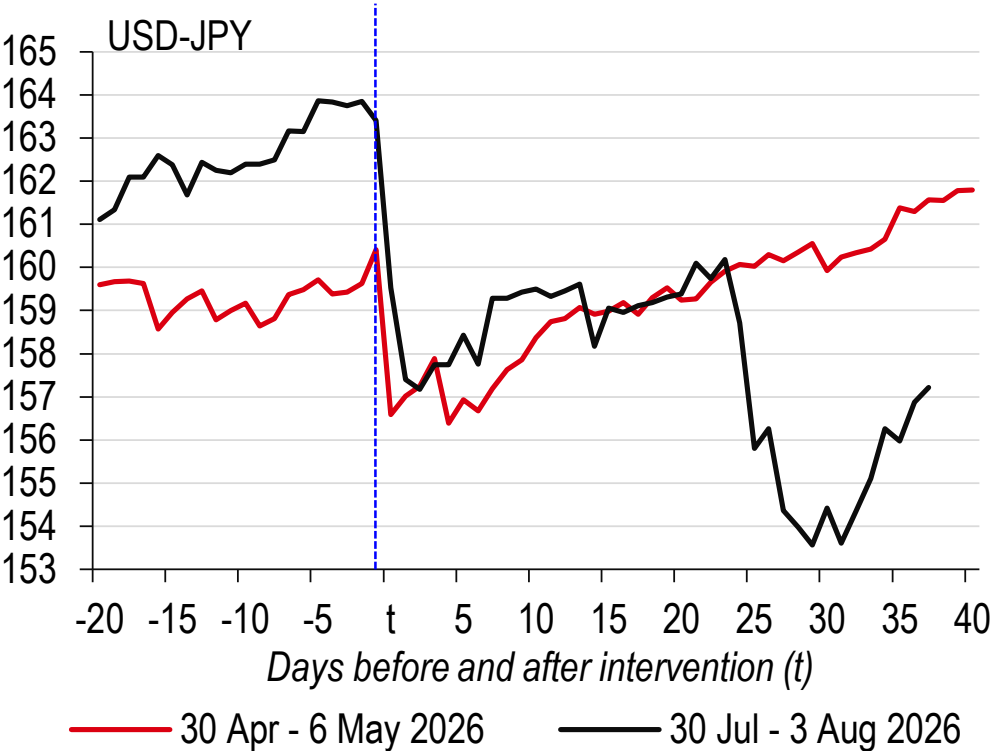
Gas-driven terms-of-trade swings remained an important headwind for the euro



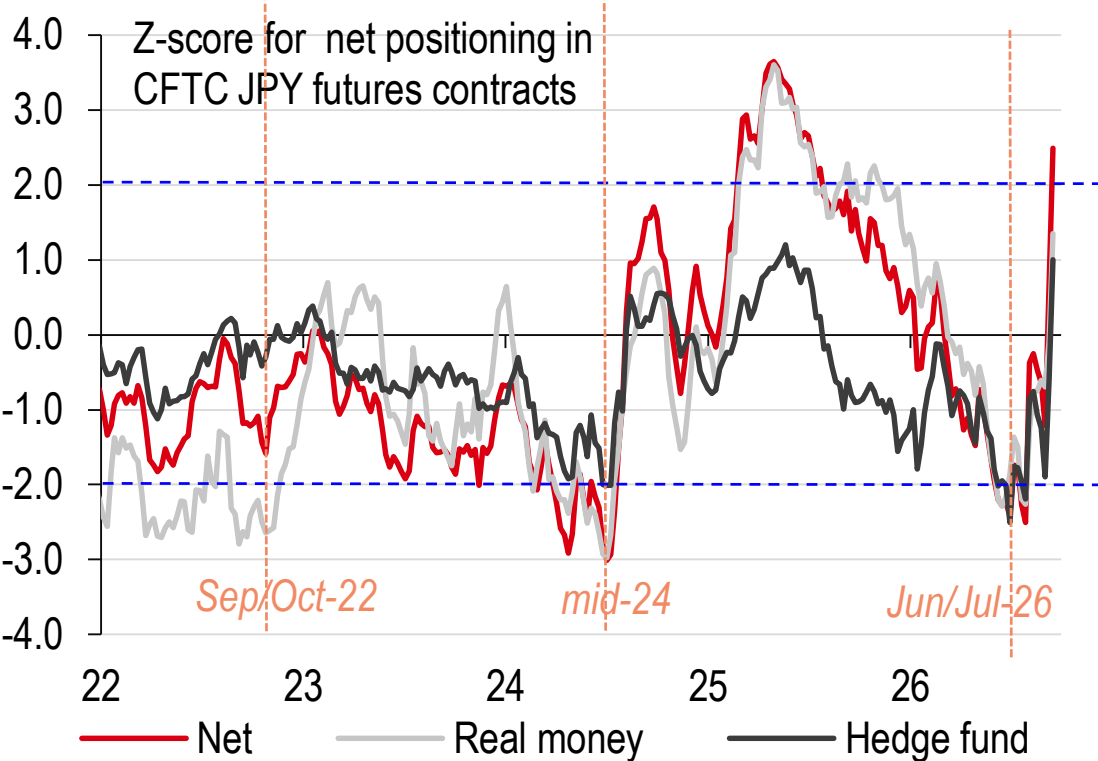
Source: HSBC, Macrobond

BoJ disappointed the market – which had flipped to being long JPY

USD-JPY was down in early September due to expectations of a hawkish BoJ...



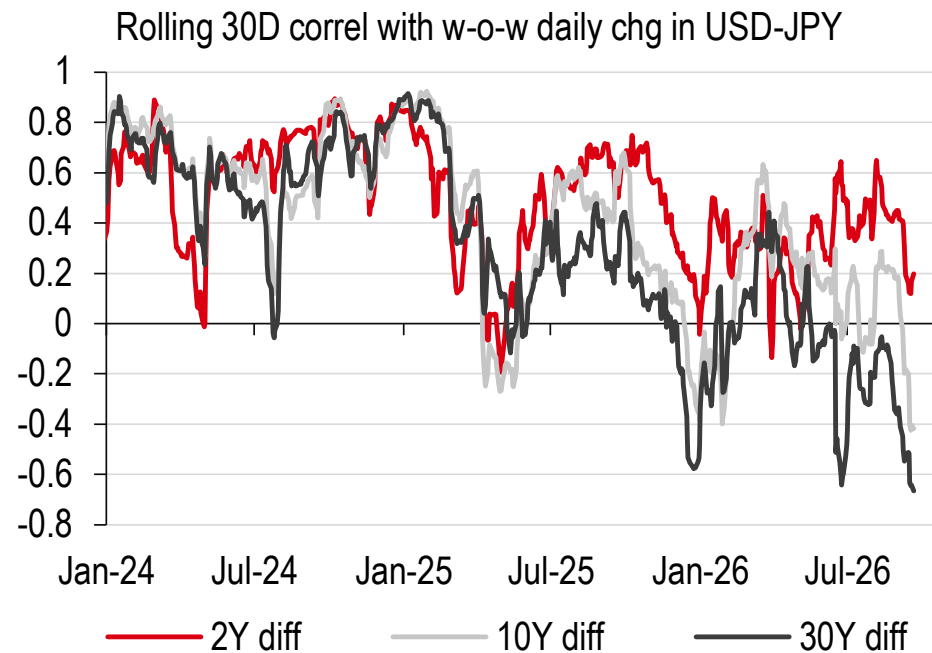
...which did not materialise



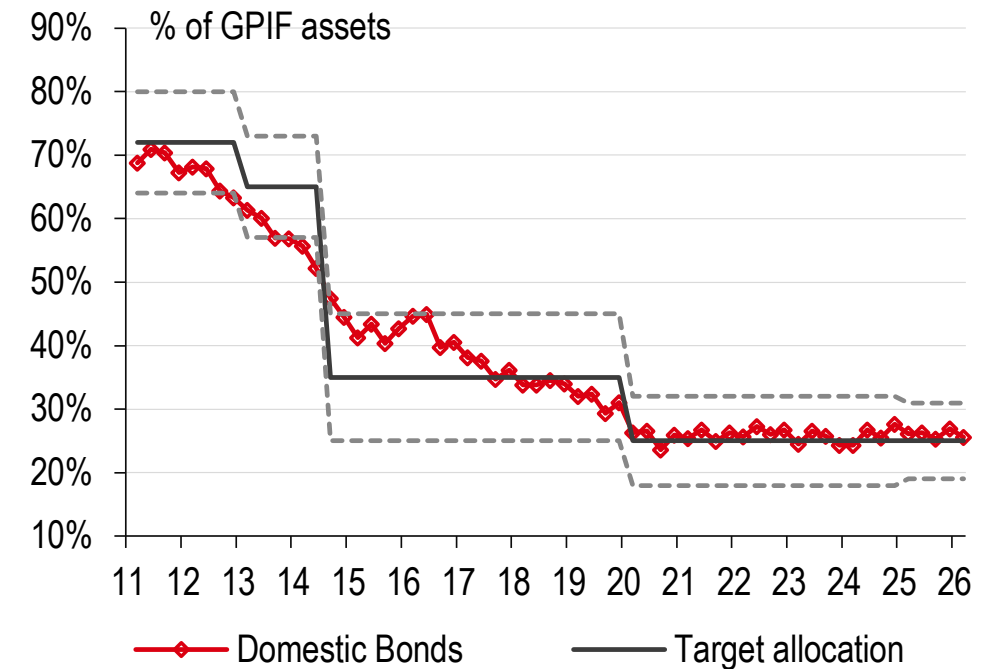
Source: HSBC, Bloomberg

Intervention, fiscal risk and GPIF headlines will drive JPY in the near term

USD-JPY is now negatively correlated with long-end yield differentials, suggesting fiscal concerns for both US and Japan in the market

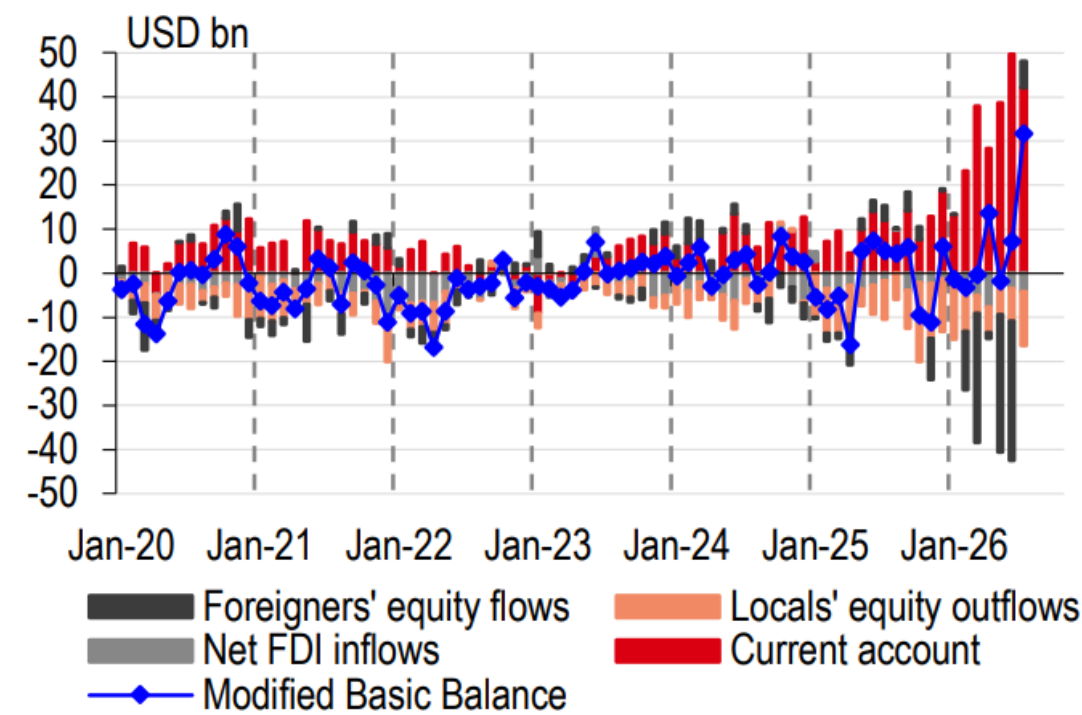


GPIF's allocation to domestic bonds



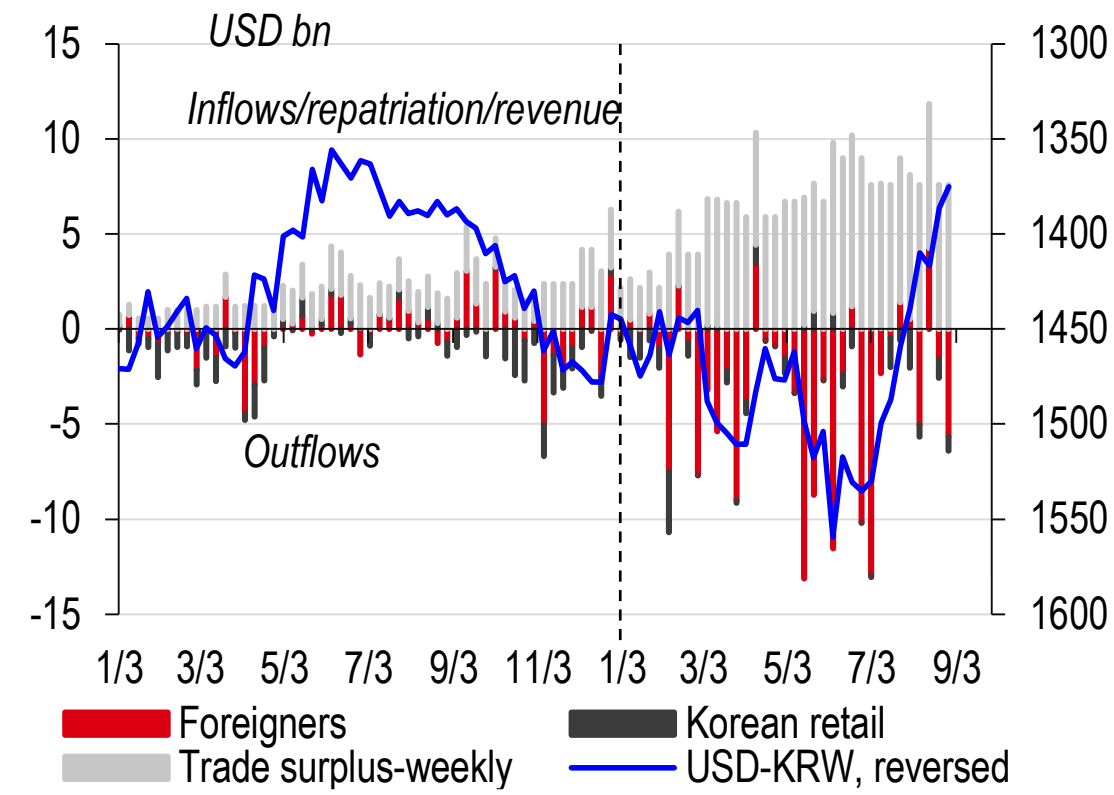
KRW: Both trade surplus and equity outflows have become very large

Korea's basic balance of payments surged in July
- the trade surplus widened even further while equity outflows suddenly slowed



Source: CEIC, HSBC

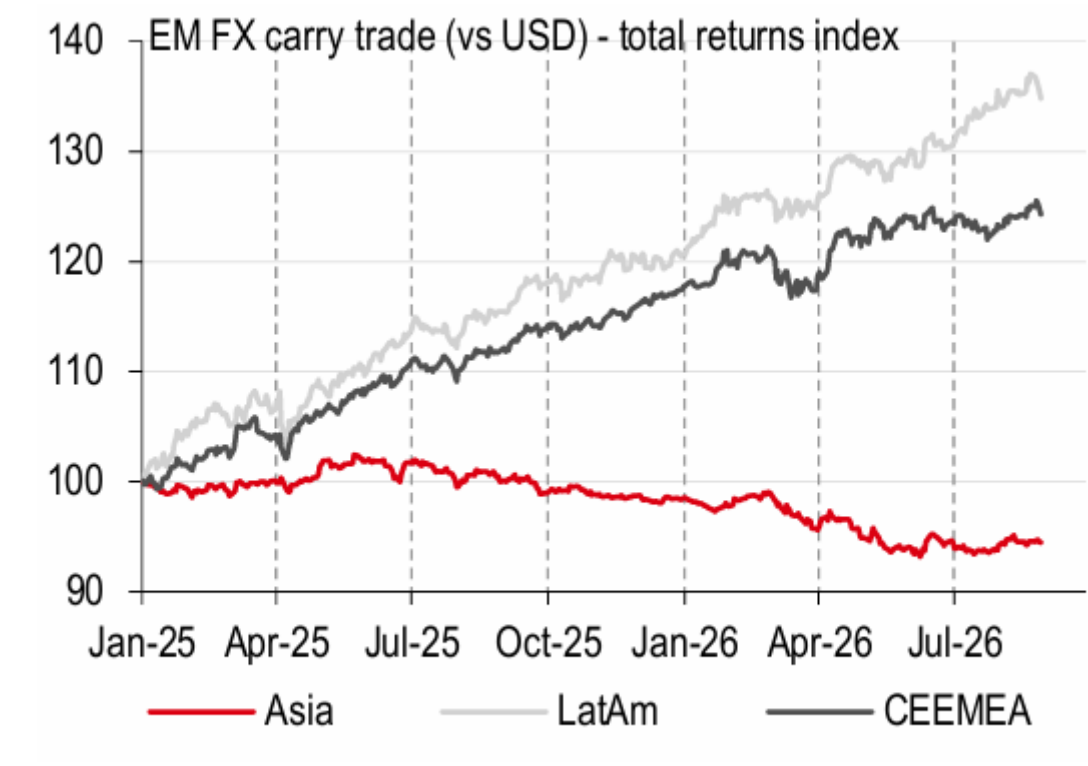
Equity outflows have been unpredictable and their relationship with the KRW has also broken down



Source for both charts: Bloomberg, CEIC, HSBC

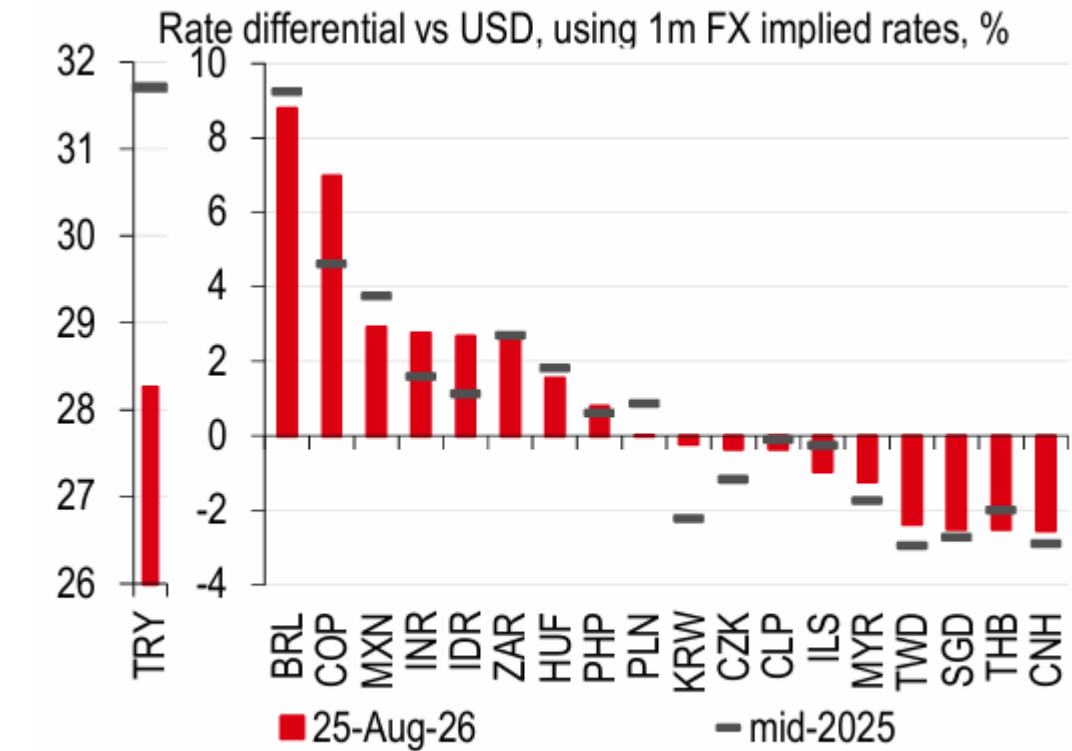
Carry train! - Wider EM

LatAm carry trade – the gift that keeps giving



Source: Bloomberg, HSBC

Yield differentials – changes versus 2025



Source: Bloomberg, HSBC

RMB performance and Internationalization

From Traditional Policy to e-CNY: how China is shifting RMB ecosystem

Acceleration of global RMB adoption across traditional and digital rails

Traditional Policy Sets the Tone

- China's 15th Five-Year-Plan underscores **RMB internationalisation** remains state-led and infrastructure-first, with emphasis on a risk-controlled cross-border payments architecture rather than broad capital-account opening.
- PBOC will facilitate the openness of the country's capital account, **develop the offshore RMB markets** and improve the macroprudential management of cross-border capital flows.¹ The PBoC Q2 2026 China Monetary Policy Implementation Report suggests greater tolerance for FX adjustment, further promoting RMB usage.

Innovative e-CNY Promotes the Currency

- In 2022, **Project mBridge** launched as a multi-central bank digital currency (CBDC) platform. Today participating authorities include HKMA, PBOC, CBUAE, Bank of Thailand, Saudi Central Bank, and Monetary Authority of Macau.
- In 2025, the **international operations centre** for the **digital RMB** was launched in Shanghai, aimed at **advancing the currency's international adoption**, strengthening financial market services, and supporting innovation in digital finance.
- On 1 Jan 2026, the PBOC formally reclassified the e-CNY from a **digital cash substitute** (M0) into an **interest-bearing deposit** (M1).
- In June 2026, **CBETS** (Cross-border e-CNY Transfer Services) was launched by PBOC, and 26 financial institutions signed agreements to join the network.

Corporates Behavior Demands Adoption

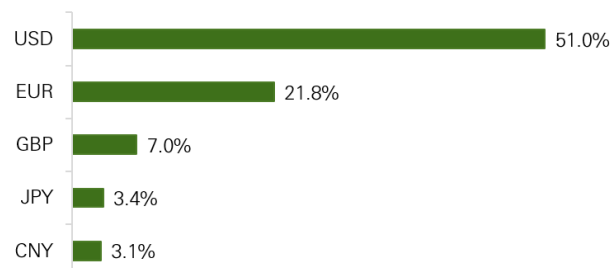
- China Corporates, especially SOEs, start proactively demand **RMB invoicing and RMB settlement** utilizing their strong supply chain influence.
- SWIFT metrics shows RMB accounts for 3.1% of international payments but **8.4% of trade finance** (July 2026)¹, consistent with gradual adoption in settlement and treasury use.
- Though Hong Kong handles 75.7% of offshore RMB payments ex-China, the **UK is #2 at 6.9%, France and Germany are #5 & #8 at 2.04% & 0.81% respectively**¹ shows the impact of this currency continues to grow in Europe.

To the rest of the world

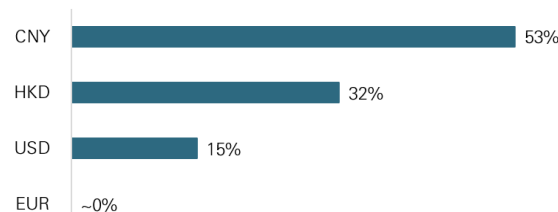
Hong Kong as RMB clearing hub

From mainland China

Global Payments Currency Ranking¹



Hong Kong RTGS Currency²



RMB 53.2tn

RMB RTGS **monthly** settlement value exceeded **HKD and USD combined** for the first time (Jun 2026)⁴

RMB 1.22tn

CIPS **single-day** record; ~42,000 transactions (Mar 2026)³

USD 55.49bn

mBridge total transaction value, ~4000 transactions (inception to Nov 2025), **eCNY** is accounted for **over 95%** transactions⁵

Journey of RMB

SWIFT

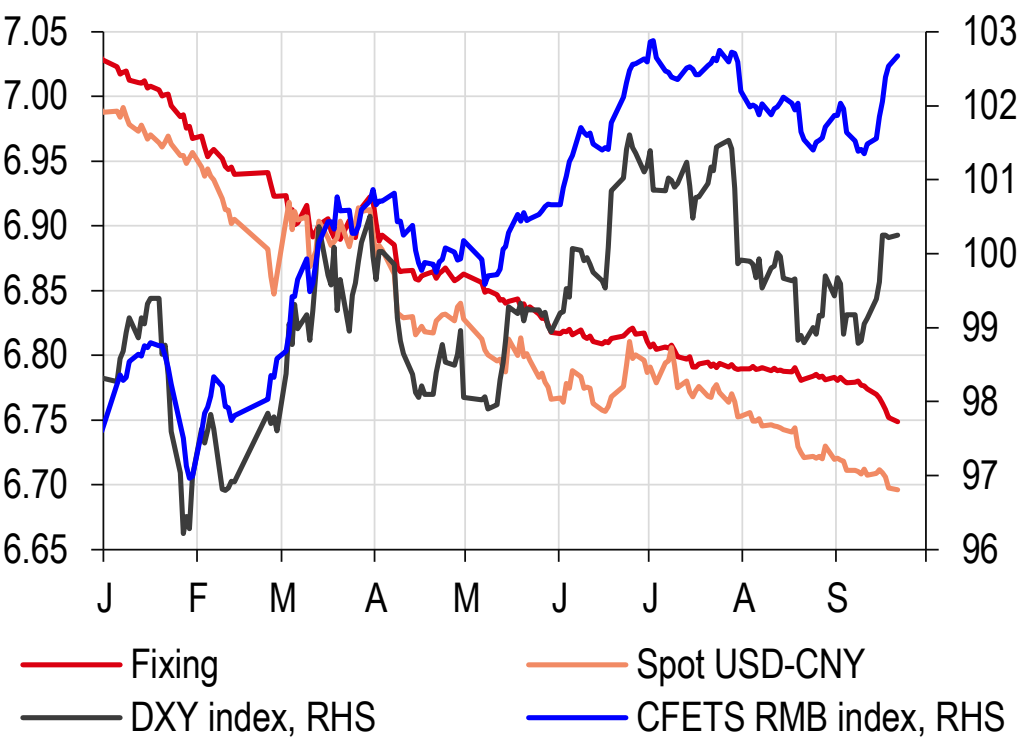
CIPS

CBETS / eCNY

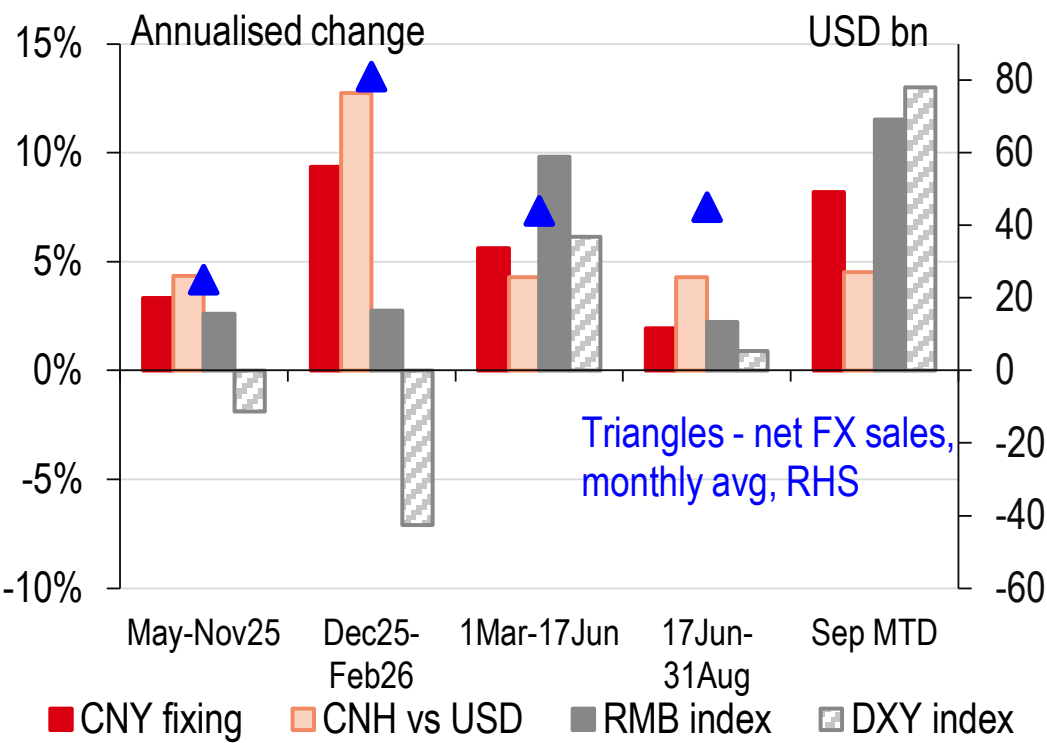
1. [SWIFT Global Currency Tracker](#), 2. [HK ICL](#), 3. [China's yuan settlements hit record, and the Iran conflict is looking like a catalyst – SCMP](#), 4. [Hong Kong's Offshore RMB Market Is Entering a New Phase - Renmin University of China](#), 5. [Fintech News Hong Kong](#)

Rapid decline in USD-CNY fixings again recently

Falling USD-CNY fixings despite broad USD strength



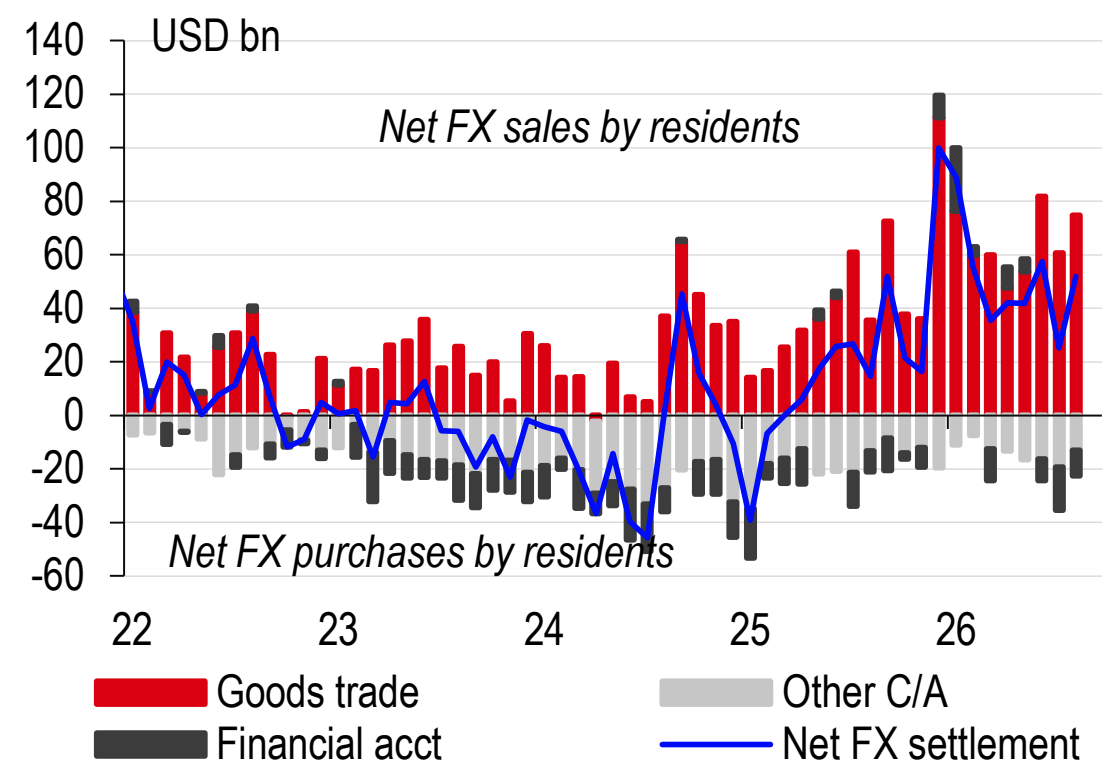
Rapid pace of RMB appreciation recently is similar to the months before the Iran war



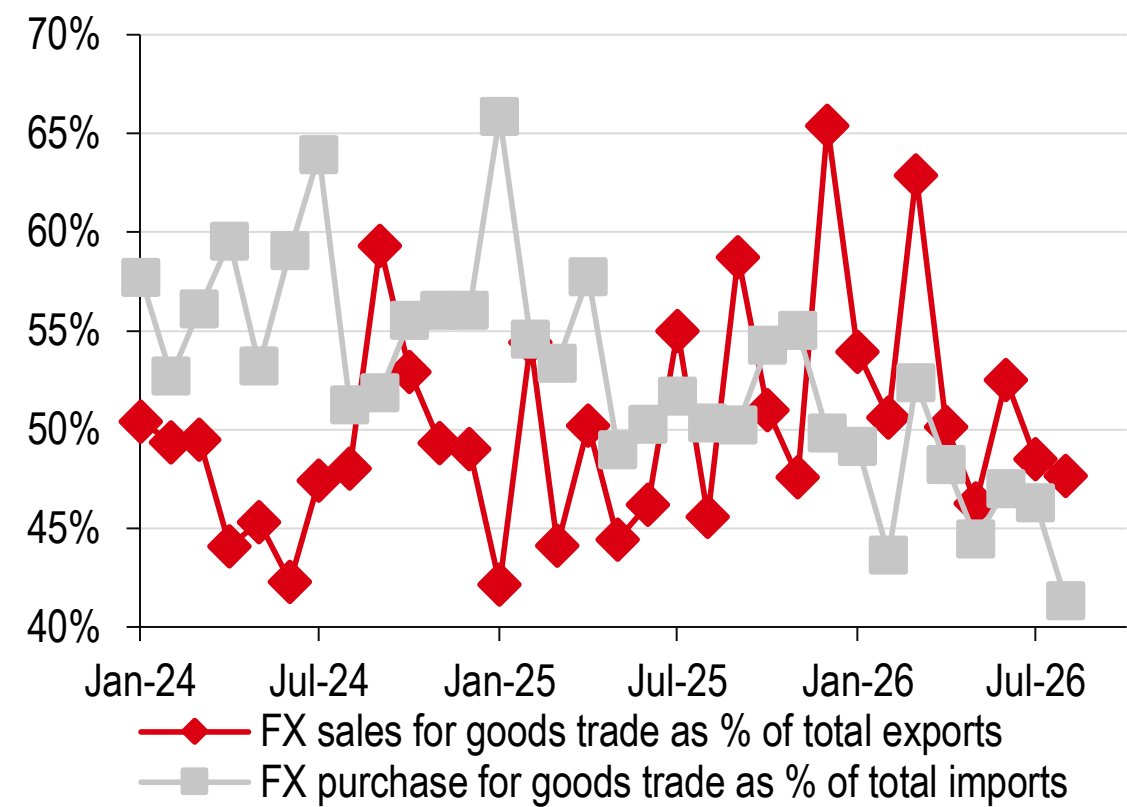
Source: HSBC, Bloomberg

Improvement in net FX supply is partly because of importers buying less USD...amid RMB internationalization

Net FX sales remained robust in August despite stable fixings that month



Importers' FX purchase ratio has fallen to multi-decade lows as they can now pay more suppliers in RMB



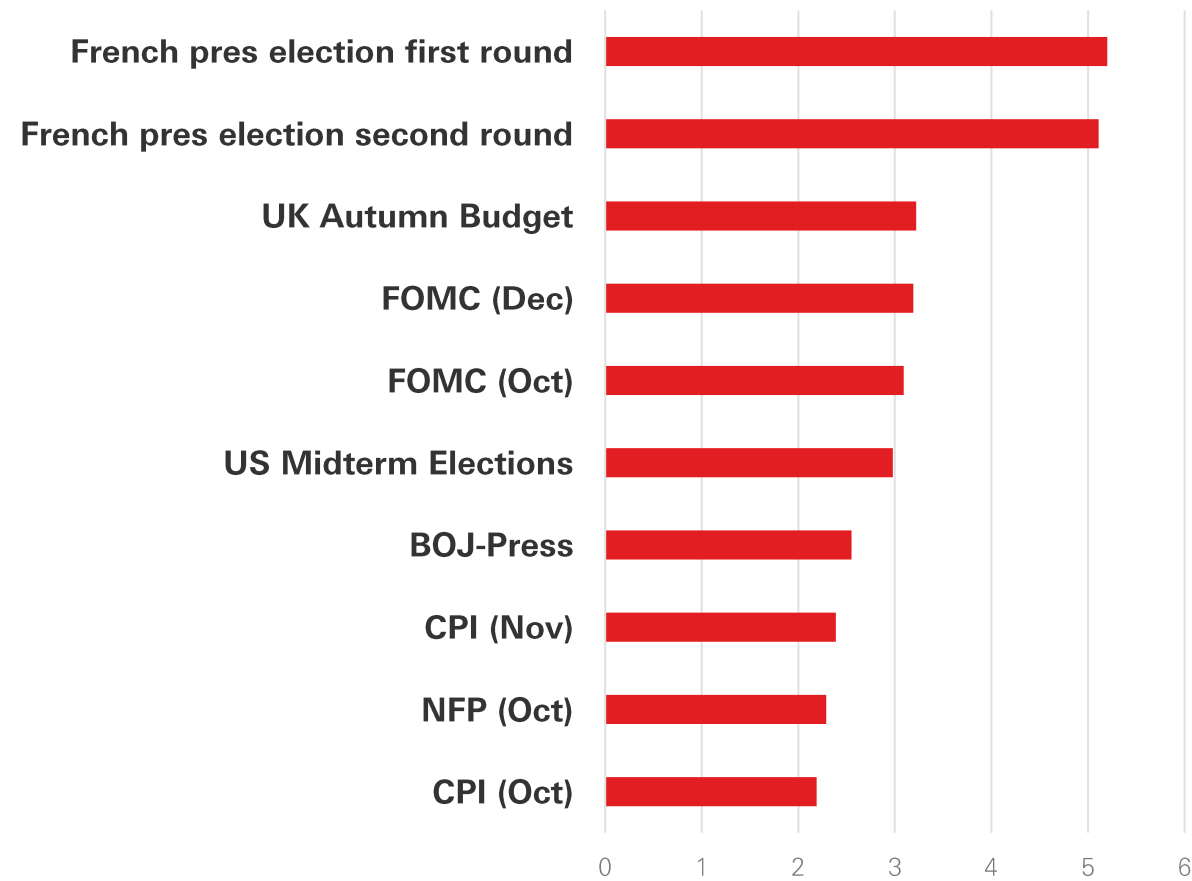
Source: HSBC, CEIC, Bloomberg

Insights from G10 & EM FX volatility markets

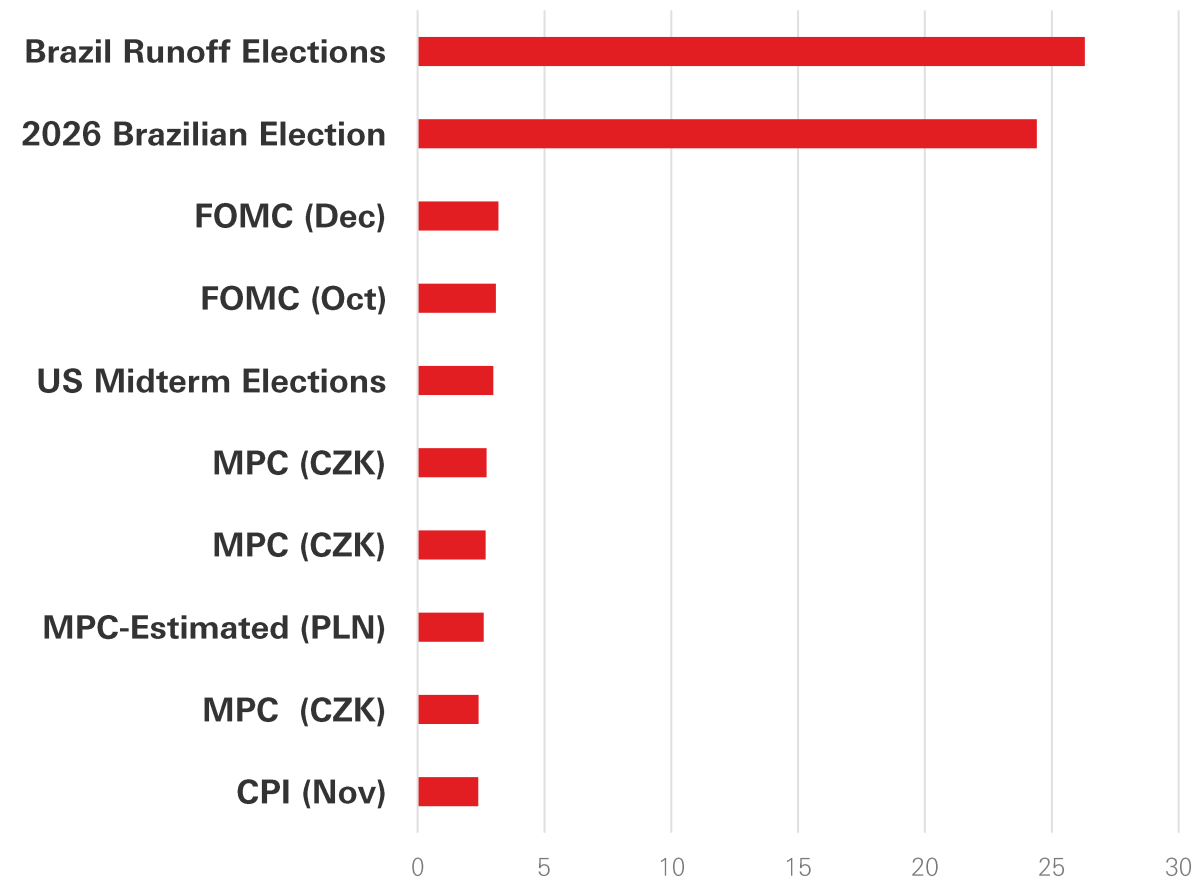
Insights from FX volatility markets

Upcoming risk events

G10 Event Risks (Days of Variance)



EM Event Risks (Days of Variance)

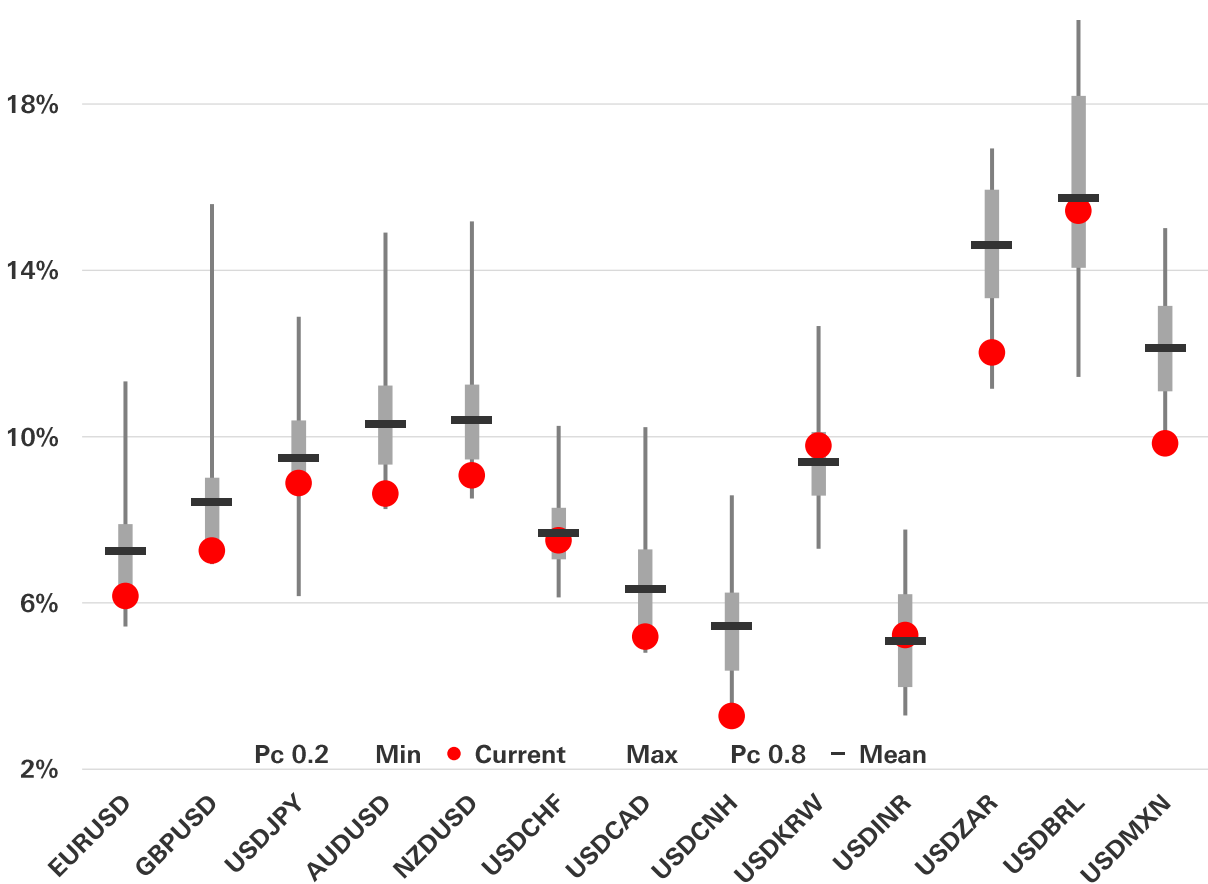


Source: HSBC, AI Markets

Insights from FX volatility markets

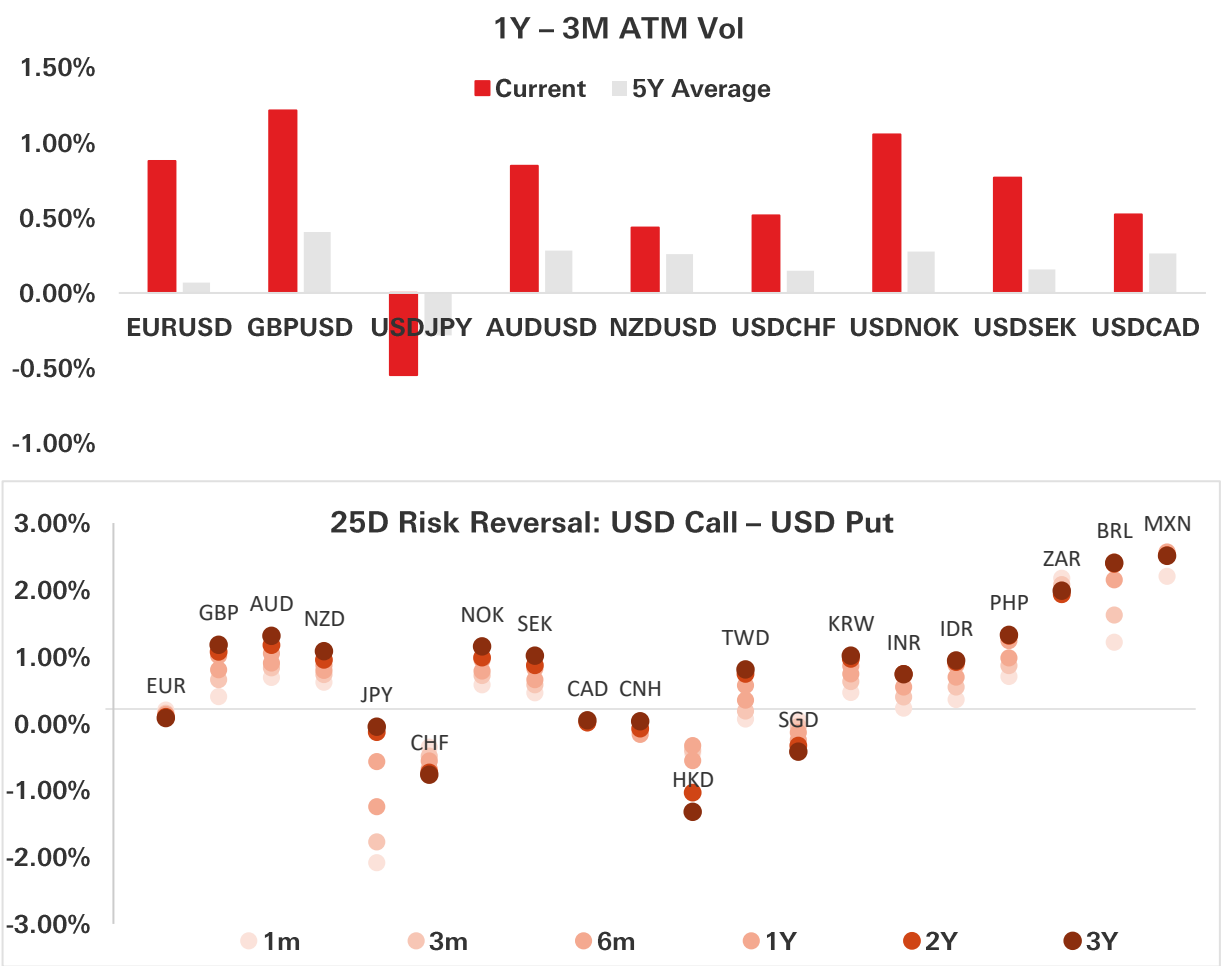
Risk premium at multi-year lows but markets not complacent

FX vols at 5-year lows



Source: HSBC, Bloomberg

Curve steepening and USD skew remain intact



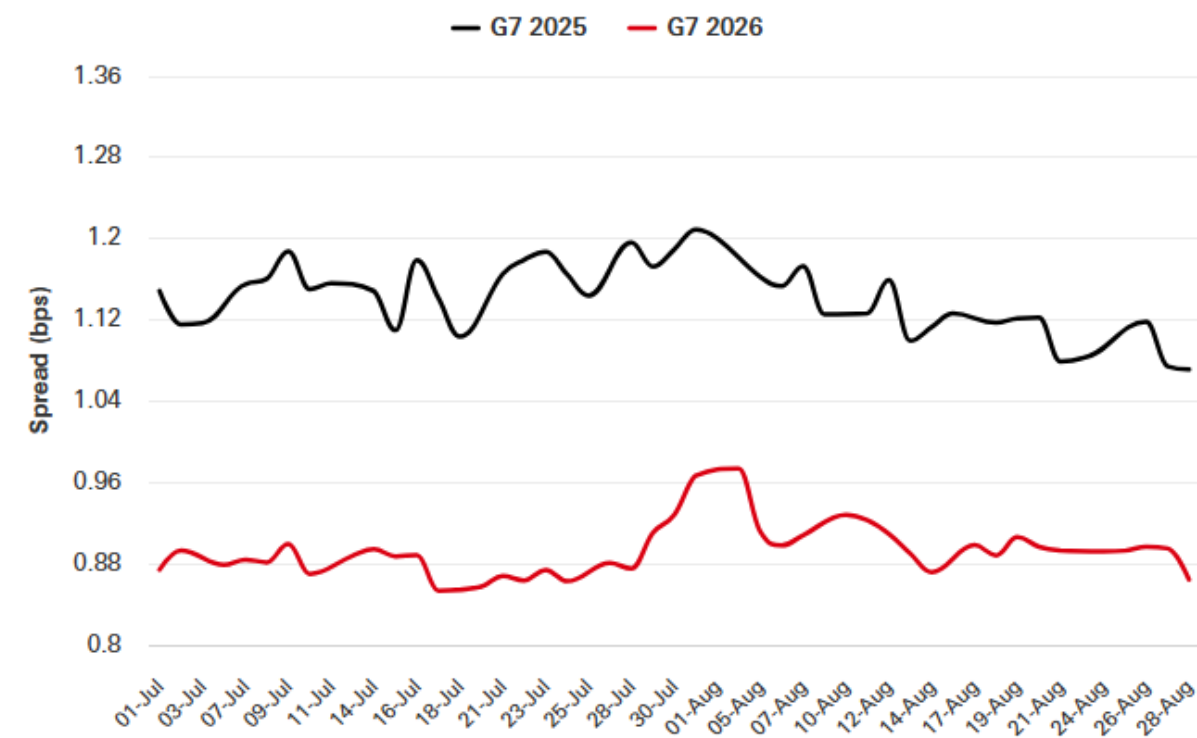
FX spot market structure developments

FX Spot Market Structure Developments

G7 still looked more event-driven in 2026. ECN volumes showed sharper late-July bursts, suggesting cleaner day-to-day conditions but more concentrated stress

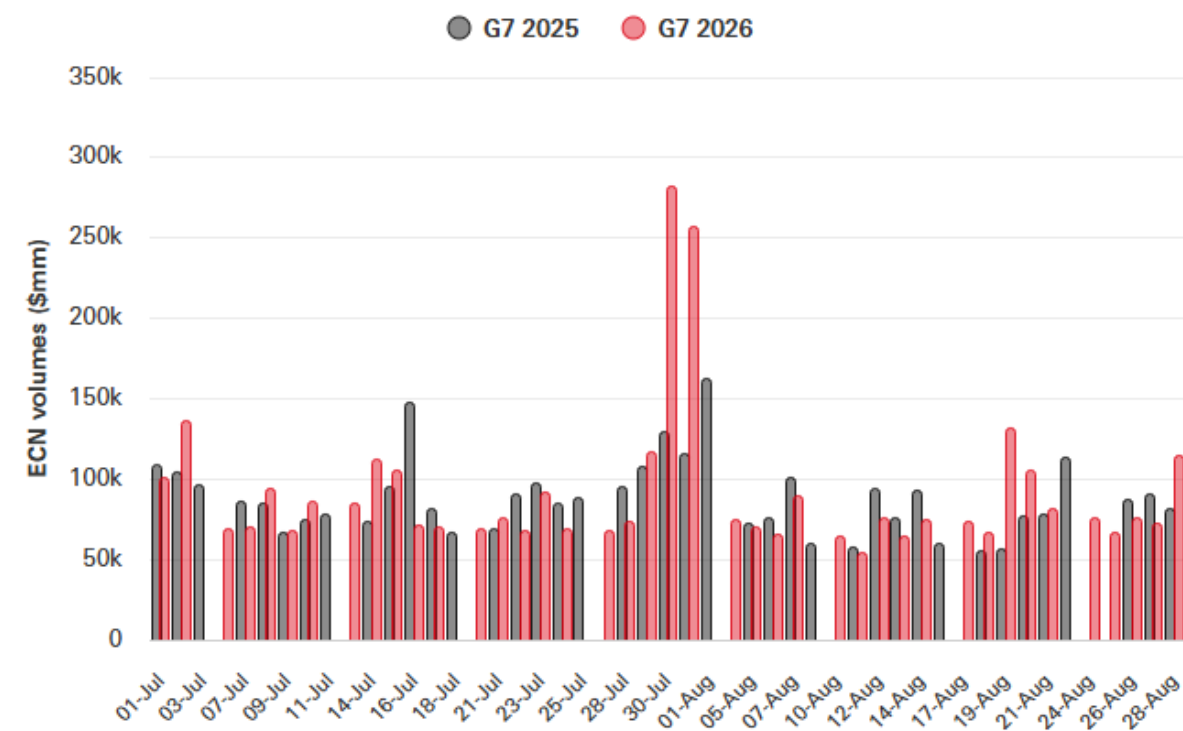
G7 spreads — 2025 vs 2026

bps



G7 ECN volumes — 2025 vs 2026

\$mm



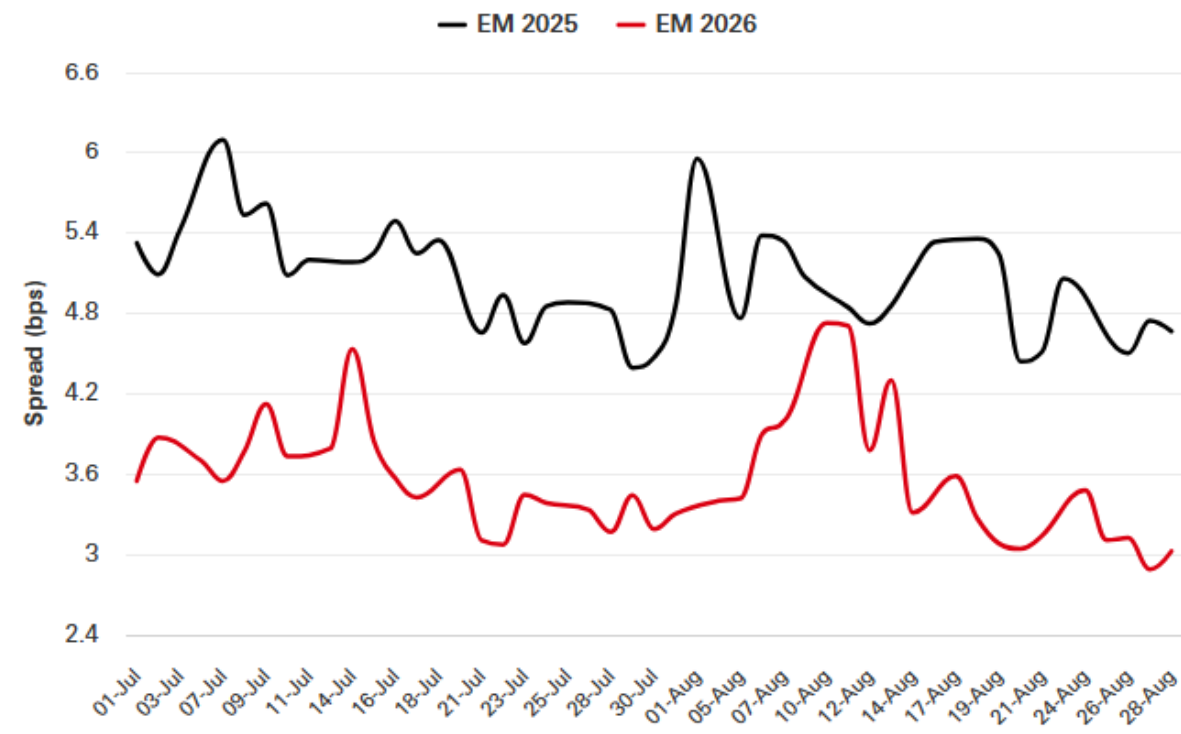
Source: HSBC, AI Markets

FX Spot Market Structure Developments

EM flow looked slightly better supported in 2026 as well. ECN volume peaks were somewhat higher, even though EM still traded structurally wider than G7

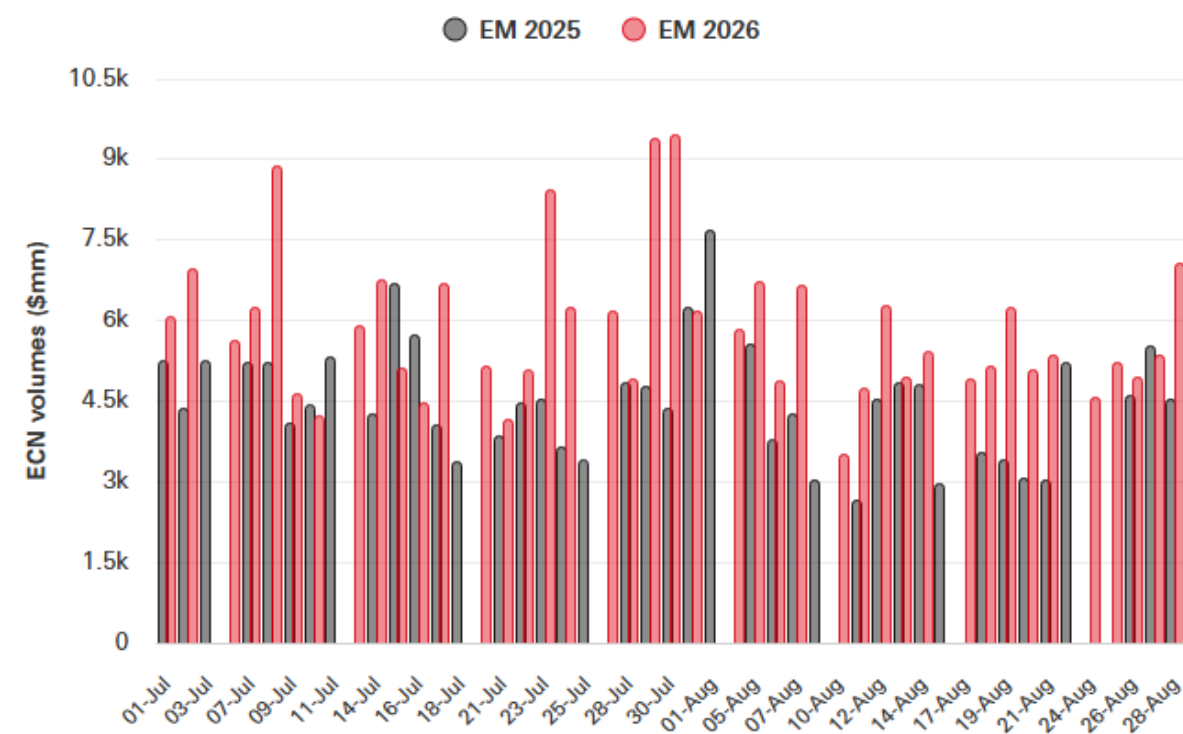
EM spreads — 2025 vs 2026

bps



EM ECN volumes — 2025 vs 2026

\$mm

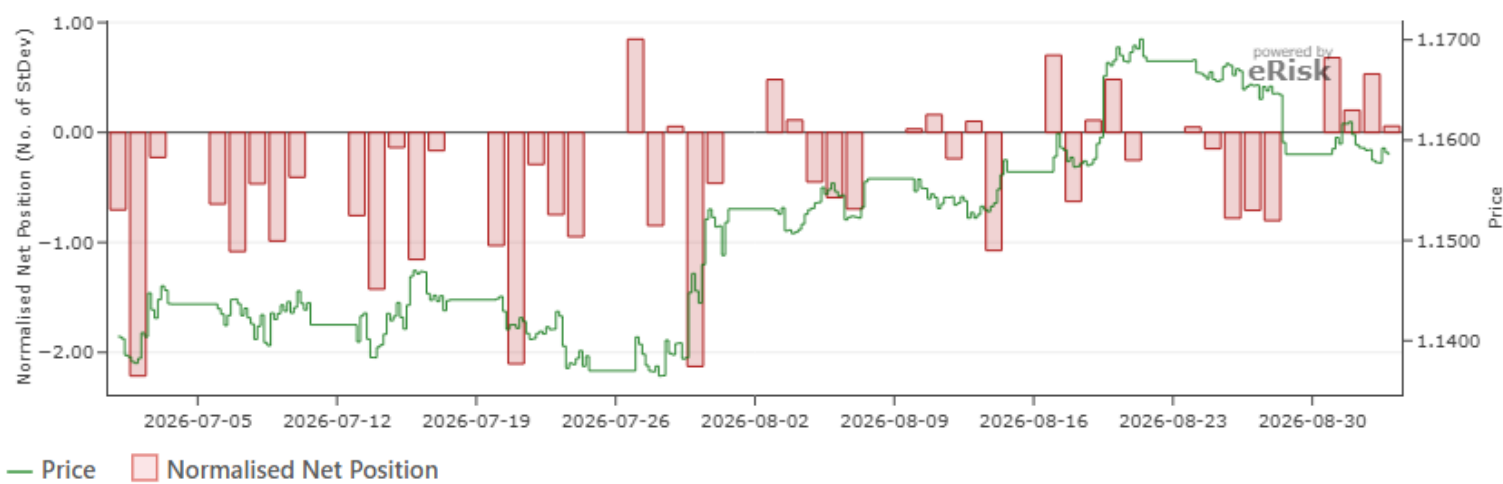


Source: HSBC, AI Markets

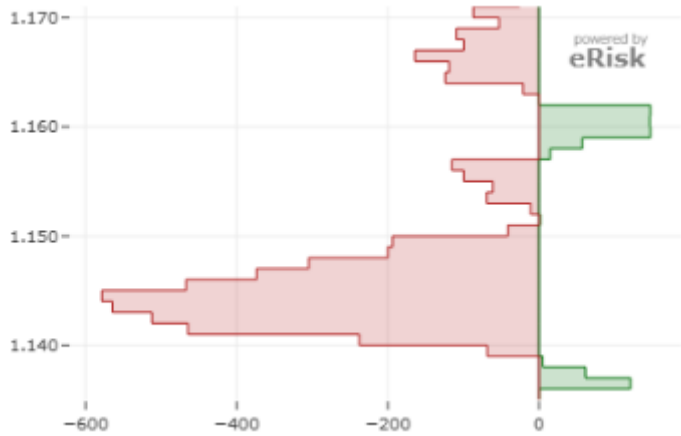
FX Spot Market Structure Developments

EURUSD

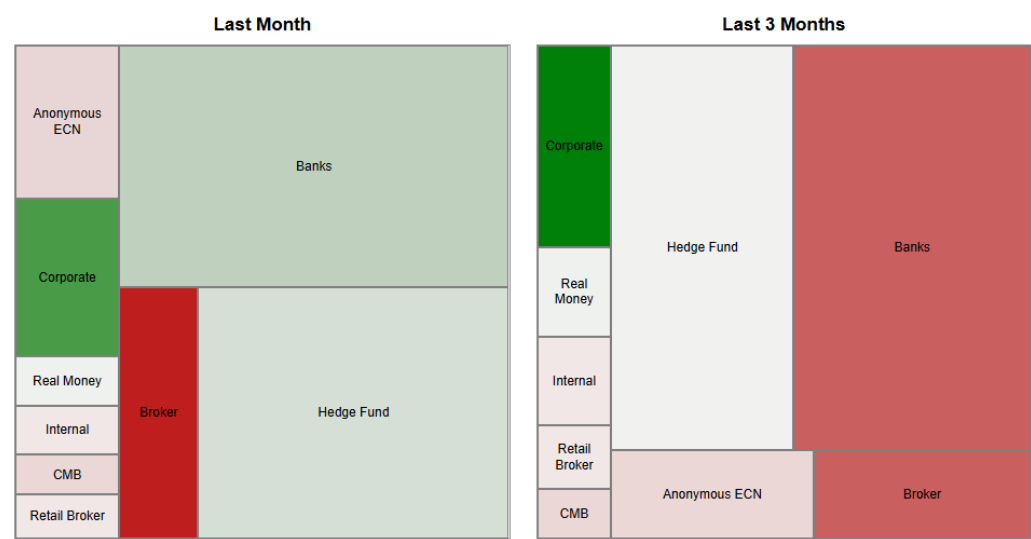
Normalised Net Position – Daily



Net Flow by Price Level since July 1st



Flow by Client Segment – last month vs last 3m



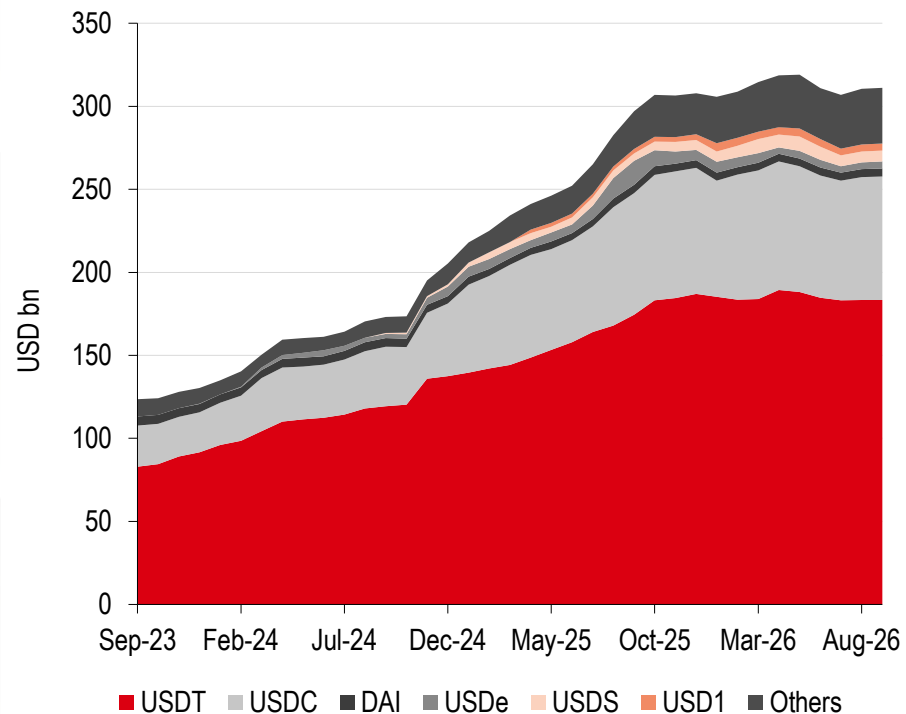
- Initially, EURUSD appreciation in July saw heavy selling, with flows in mid-August becoming more aligned with the emergence of the USD debasement narrative
- Better buying of EURUSD below 1.14 in early July, and around the 1.16 level in late August, with heavy selling between these two notable levels
- Corporates have been consistent buyers of EURUSD, with banks and hedge funds becoming better buyers in the last month vs last 3 months

Digital assets developments

Stablecoin adoption has not surged since Genius Act but this could change

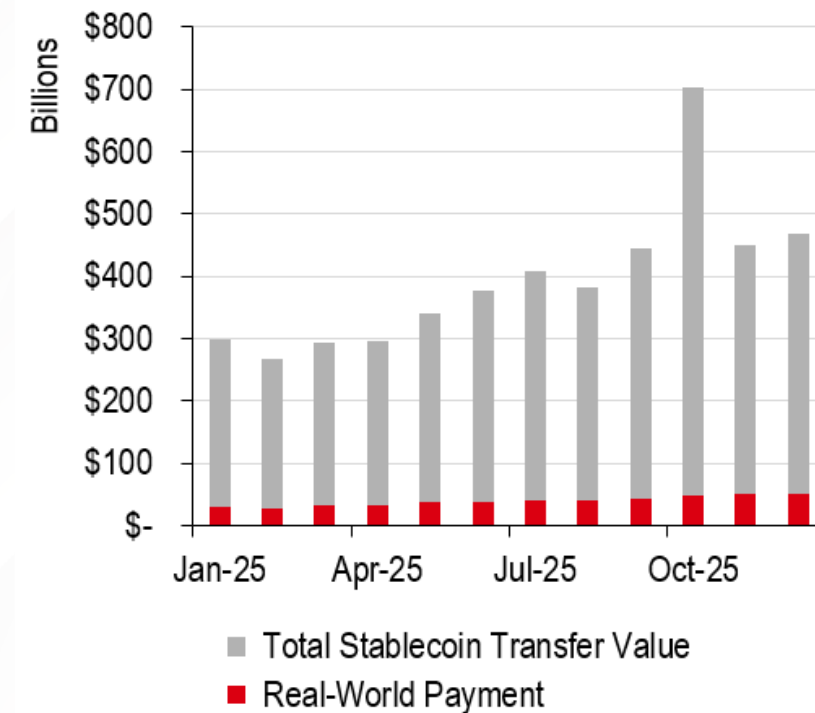
Stablecoin market cap has stalled around \$300bn despite GENIUS Act and are still dominated by USD pegs (due to dominance of crypto trading)

Stablecoin market cap



Source: DeFi Llama, HSBC

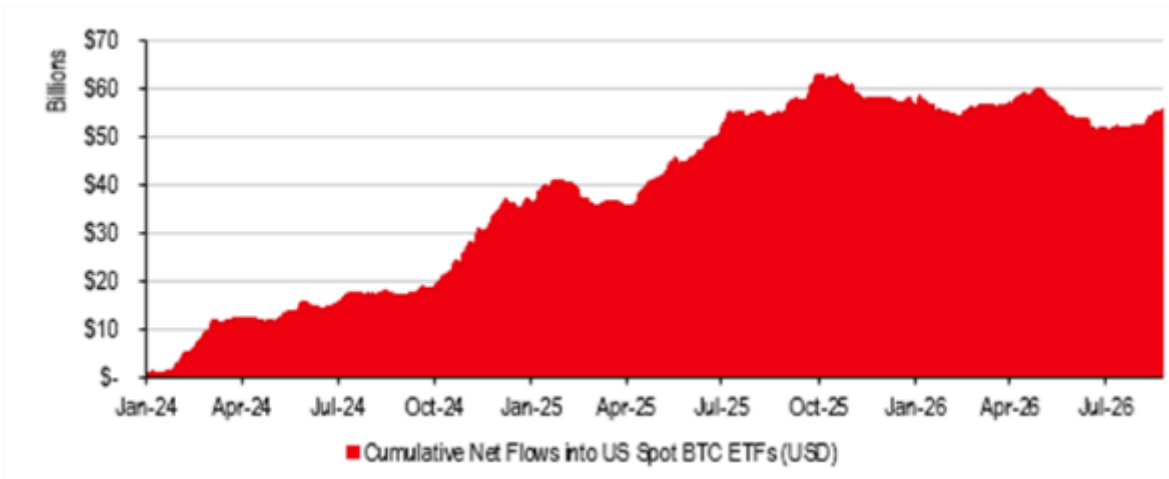
Stablecoin transaction turnover



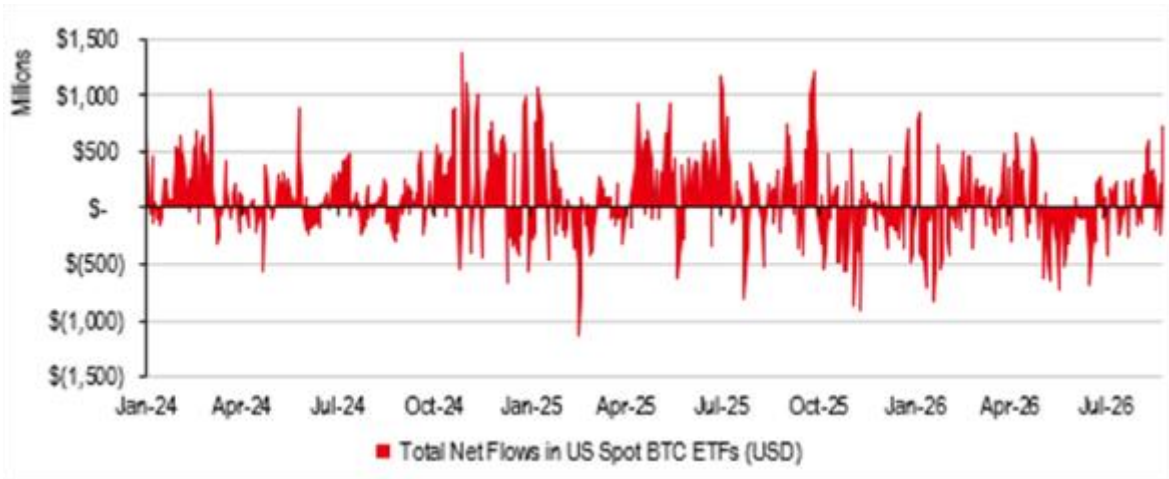
Source: BGC, Allium, HSBC

Digital Assets: Volume growth points to an increasingly mature asset class.

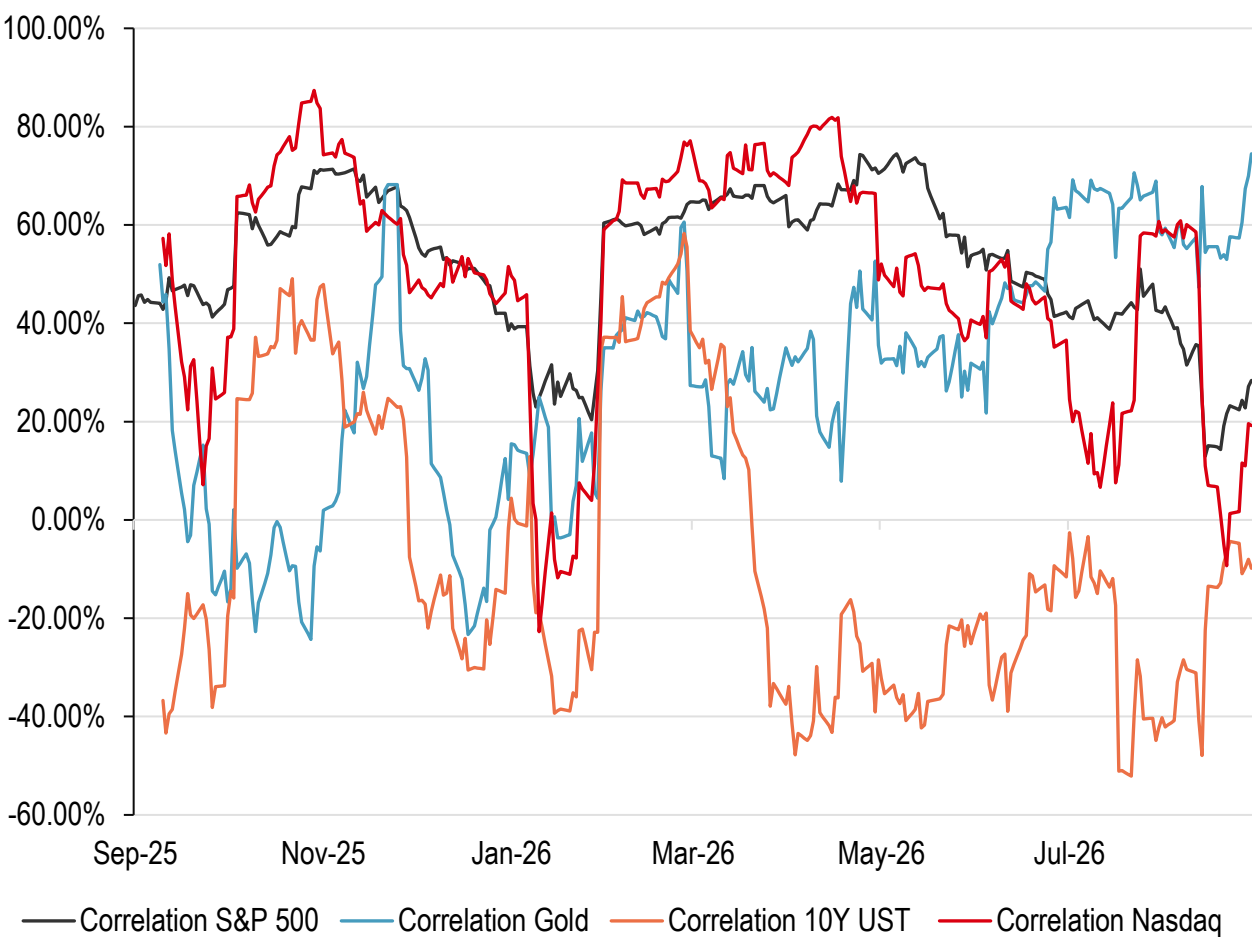
US BTC ETF cumulative Net Flows over the past 2 years



US BTC ETF total Net Flows over the past 2 years



Bitcoin correlation with gold reaches YTD highs as Debasement trade regains traction



Open Questions

Open Questions

1. Why has FX volatility fallen despite heightened geopolitical uncertainty in the Middle East?
2. Will the US mid-term elections impact the USD?
3. What does the rise in global long end sovereign yields mean for G10 FX?
4. What is necessary for a sustained appreciation of the JPY?
5. What is the significance of Hong Kong in the internationalisation of the RMB?
6. What holds back the EUR from sustaining a challenge to the USD?
7. How has the AI tech equity rally impacted FX, notably in Asia, but also in Europe? What are the likely longer-term implications?

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