

# Roswitha Hutter DG Market Operations Bond Markets and International Operations Division

### **Market review**

FXCG, 26 April 2016

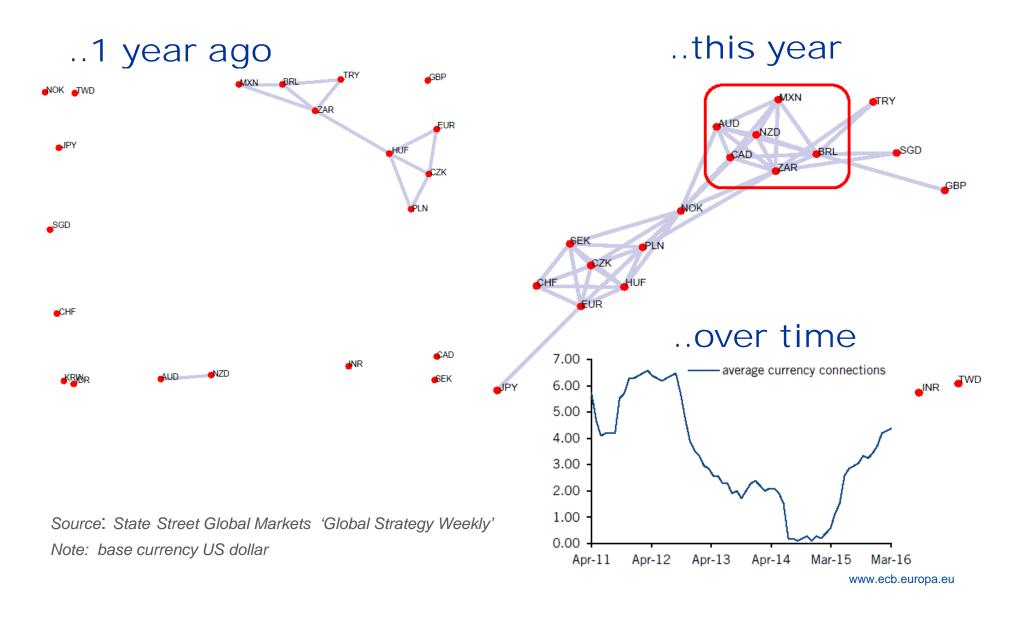
<u>Disclaimer</u>: The views expressed in this presentation are those of the author and do not necessarily represent those of the ECB or the Eurosystem.

### FX market themes – for discussion

- Low/Negative interest rates European currencies / Japanese yen
- Commodity dynamics EM and DM currencies
- Policy divergence US dollar / euro
- Political risk Pound Sterling

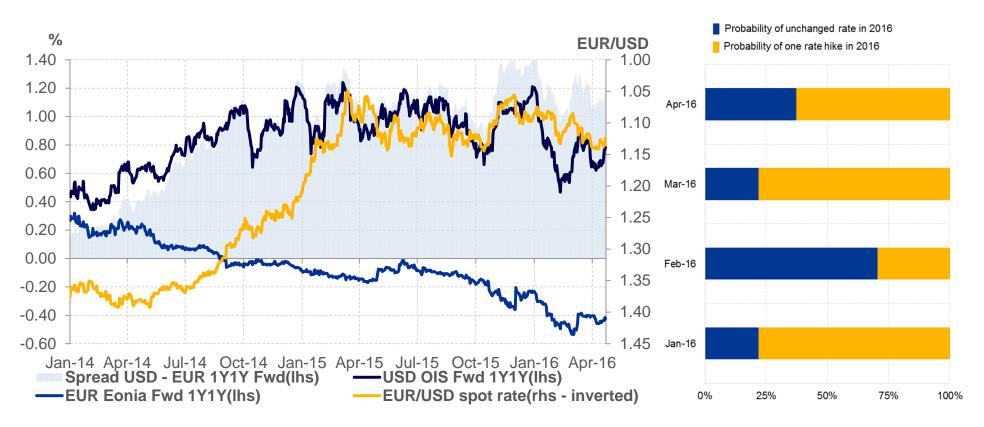
### State Street's relationship analysis within FX market

### How connected are currencies...



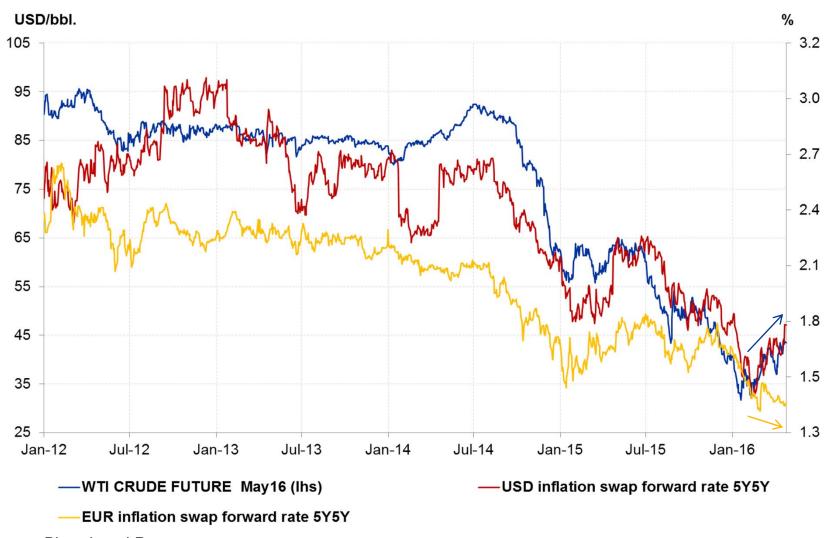
### Policy divergence between the Fed and the ECB

## Are investors revisiting the topic of policy divergence?



### Inflation expectations in the US and euro area

### Will inflation expectations between the US and the euro area continue to diverge?

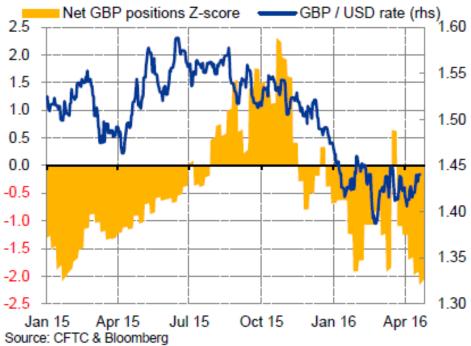


Source: Bloomberg LP 5 www.ecb.europa.eu

### Uncertainty remains elevated ahead of the UK – EU referendum

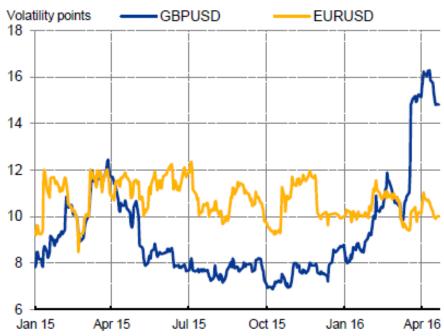
## Sterling currency pairs indicate implied uncertainty even though fears moderated slightly

#### GBP/USD and non-commercial positions



Note: GBP/USD exchange rate and CFTC non-commercial futures positions in GBP/USD. Z-score assumes a gaussian distribution over a 1y horizon.

#### GBPUSD and EURUSD 3m volatility



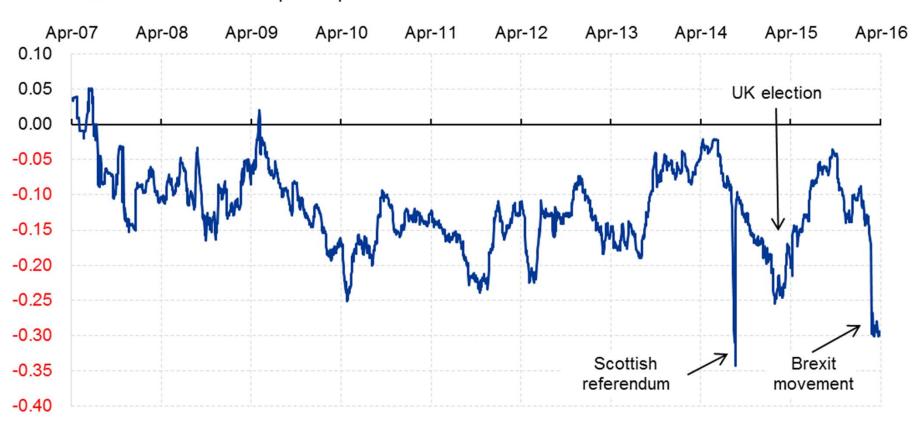
Source: Bloomberg & ECB

Note: The chart shows the 3-month volatility of ATM FX options of GBP/USD and EUR/USD.

### Uncertainty remains elevated ahead of the UK – EU referendum

### Exchange rate expectations skewed to GBP depreciation – more to come?

#### ■ GBP/USD 3-month option implied skewness



Source: Bloomberg LP

Notes: Implied skewness calculation is based on the 3-month 25 delta risk reversal of GBP/USD currency option.

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