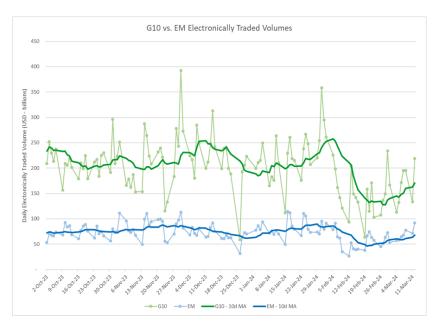
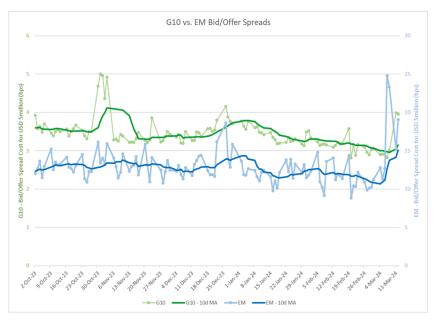
FX Volumes and Spreads



Volume

Sources: Primary and ECN venues



Bid offer spread

Sources: Primary and ECN venues

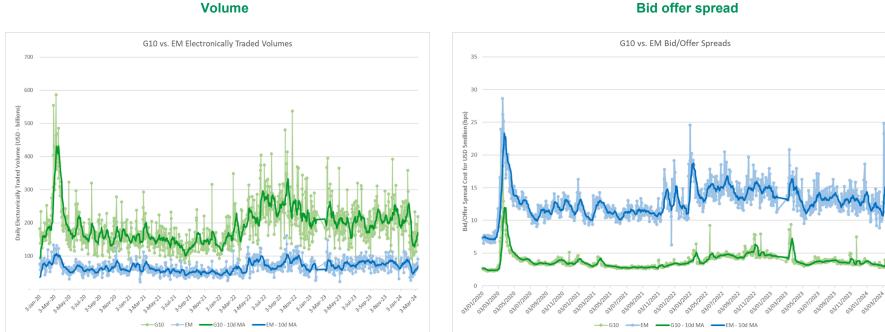


Volumes dropping in Q1, spreads compressing





FX Volumes and Spreads – looking further back



Volume

Sources: Primary and ECN venues

Sources: Primary and ECN venues

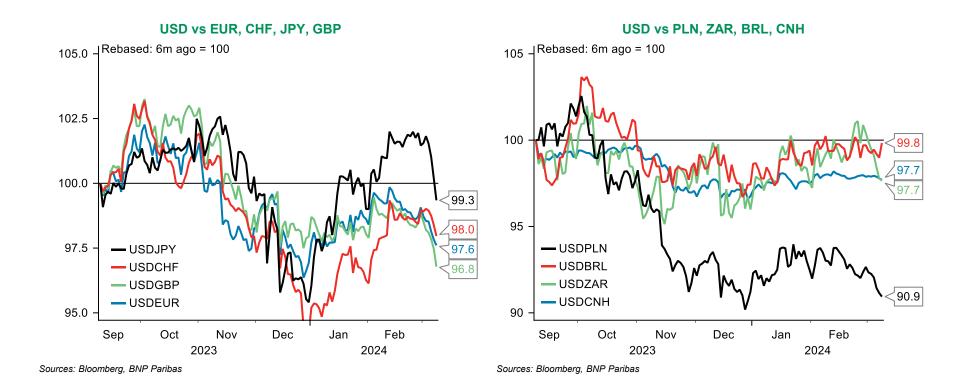


2020/2021 vs 2022/2023





USD performance



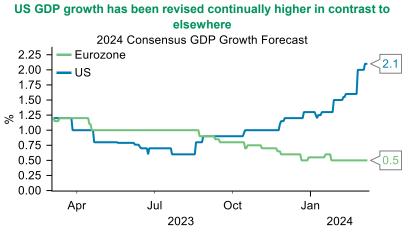


USD shorts squeezed to start the year



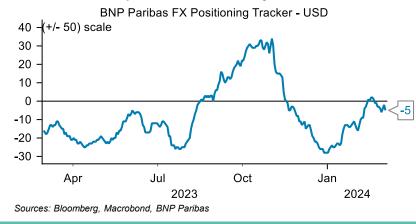


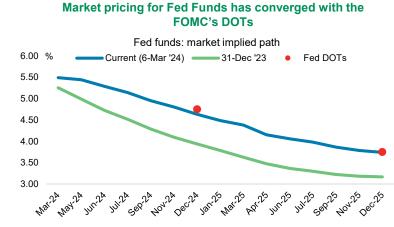
Summary of recent market moves



Sources: Bloomberg, Macrobond, BNP Paribas

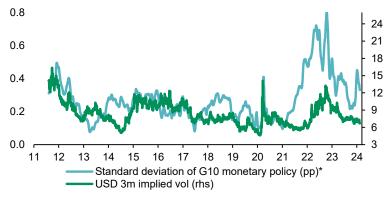
USD short positions have been fully unwound





Sources: Federal Reserve, Bloomberg, BNP Paribas

Less policy divergence suggests balanced risks for FX vol



Sources: Bloomberg, Macrobond, BNP Paribas



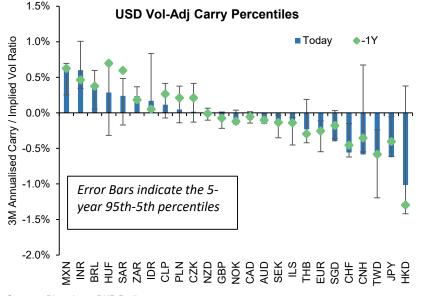
US exceptionalism has seen Fed rate cut expectations unwind and FX vol de-couple from rates vol





3

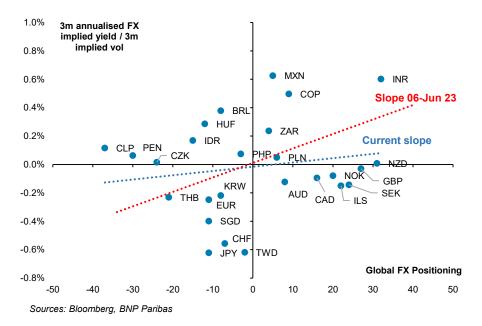
Carry still our top pick



MXN and BRL top carry picks

Sources: Bloomberg, BNP Paribas

Room for positioning in high yielders to extend (as well as positioning in the low yielders)



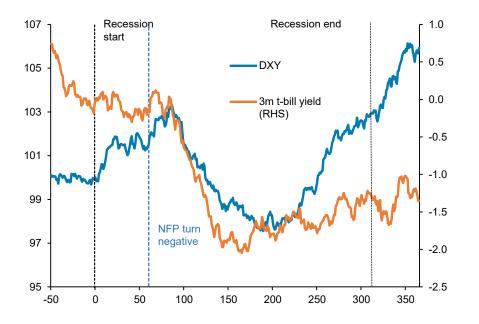


We see further room for FX carry outperformance.



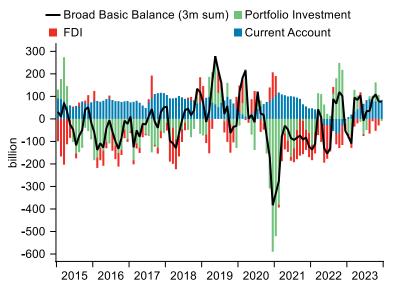


EURUSD – range bound



Average change in DXY and 3m yields during recessions

Eurozone' broad basic balance of payments has improved



Recession start and end are those defined by NBER. See <u>Business Cycle Dating | NBER</u>. Sources: Bloomberg, BNP Paribas

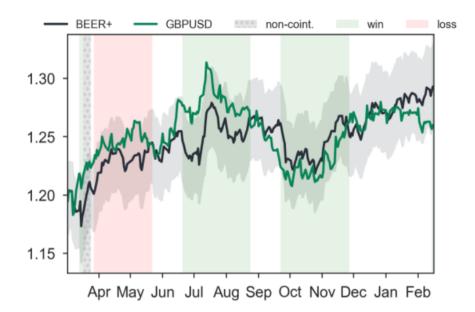
Sources: Macrobond, ECB, BNP Paribas.

Resilient US growth and high US yields overwhelm positive EUR fundamentals going into year end



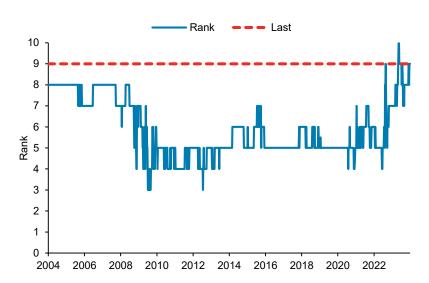


GBPUSD – green shoots



GBPUSD spot vs BEER+ fair value

UK yields rank more highly in G10 than history



GBP 2-year yield, rank in G10

Sources: Bloomberg, BNP Paribas

Sources: Bloomberg, BNP Paribas.

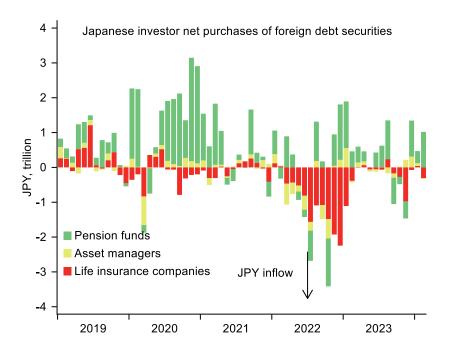






USDJPY – treading water

Japanese investors could slow their purchases of foreign debt



Sources: Macrobond, MoF, BNP Paribas

Market pricing for BoJ rate hikes have already repriced and carry remains punitive

0.25 Cumulative pricing



Sources: Bloomberg, BNP Paribas.

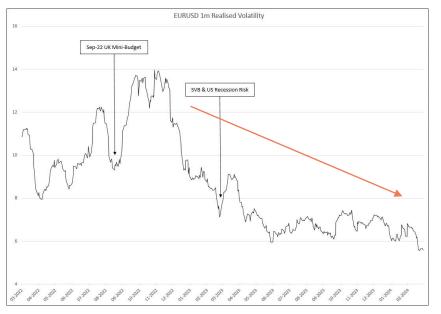
After the BoJ exits NIRP domestic investors could slow purchases of foreign debt but this remains to be seen and carry is negative





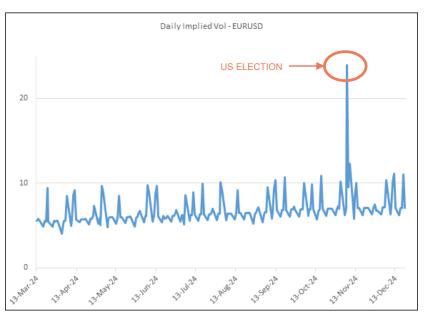
7

FX vol: Steady trend lower



Realised volatility trending lower from Q4 2022

Event Risk is stable except...



Sources: BNP Paribas

Sources: BNP Paribas

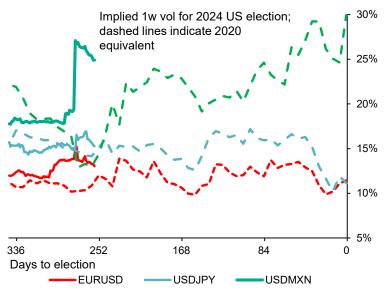


Realised volatility trending lower, with only one major event priced in the calendar





FX vol: US Election Premium



Implied election date vol has already risen

		2024	
	t = 8-Nov-16	t = 3-Nov-20	t = 5-Nov-24
	Implied 1w b/e	Implied 1w b/e	Implied 1w b/e
EURUSD	1.3%	1.3%	1.4%
USDJPY	1.8%	1.2%	1.7%
USDCHF	0.4%	1.2%	1.5%
GBPUSD	1.3%	1.5%	1.7%
USDCAD	2.3%	1.3%	1.3%
AUDUSD	1.2%	1.7%	2.0%
USDMXN	1.2%	3.3%	2.7%
USDBRL	3.8%	3.0%	2.4%
USDZAR	2.8%	2.4%	2.4%
USDCNH	1.3%	1.5%	1.3%
USDKRW	1.3%	1.6%	1.6%
USDPLN	1.5%	2.3%	2.2%

Historical implied break evens vs 2024 pricing

Sources: BNP Paribas

Sources: BNP Paribas



A lot of risk premium is already in the price for the US election





9

- Internalisation rates impacting volumes and spreads?
- More cuts or less cuts where is the risk asymmetry?
- Is the US election that important?
- EUR higher or lower?
- Does BoJ matter for JPY?
- Lower volatility the new normal?







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