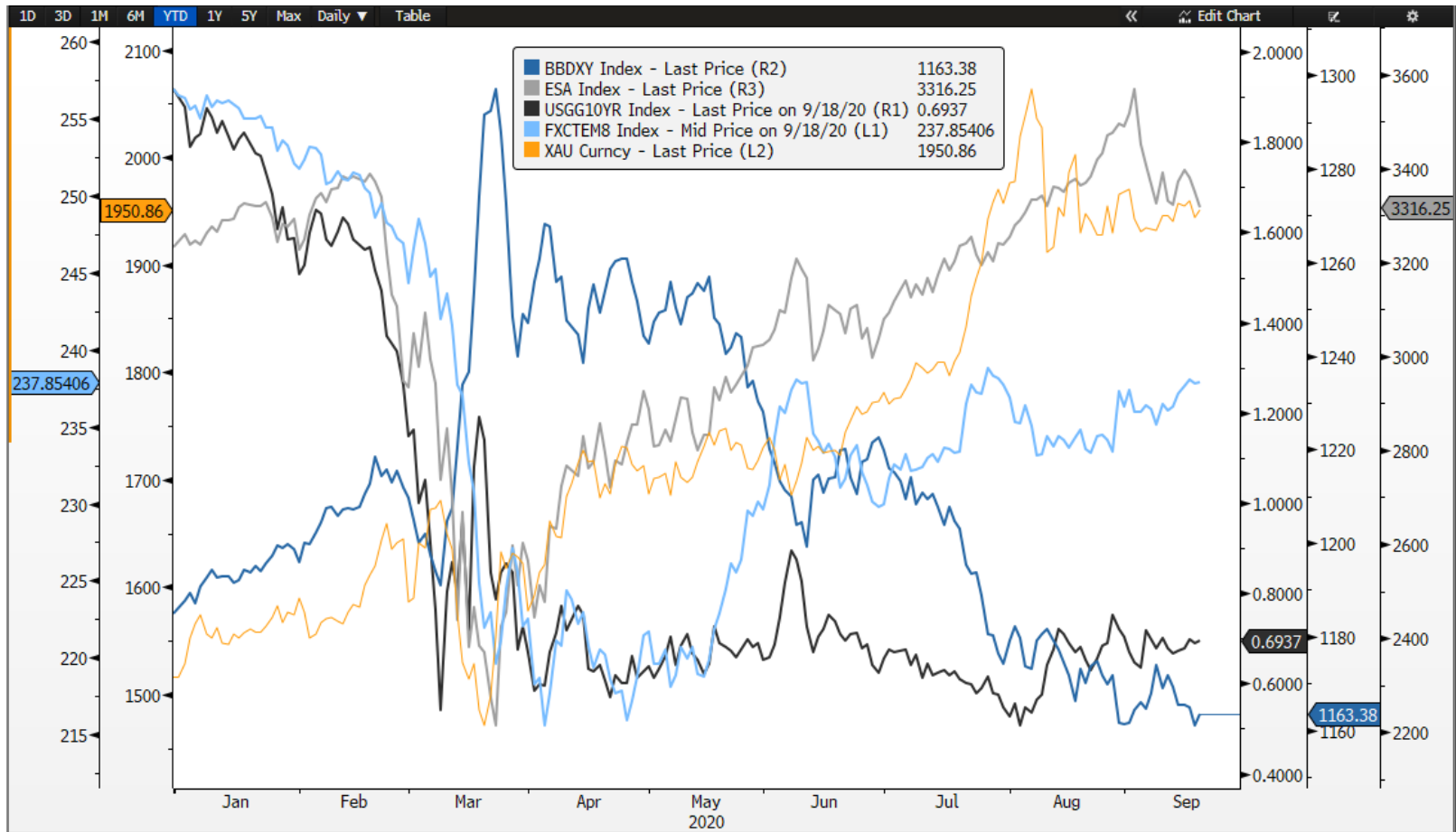


# Market Condition 3Q 2020

Akira Hoshino  
Head of FX, Citi Japan

# What Happened Macro Picture



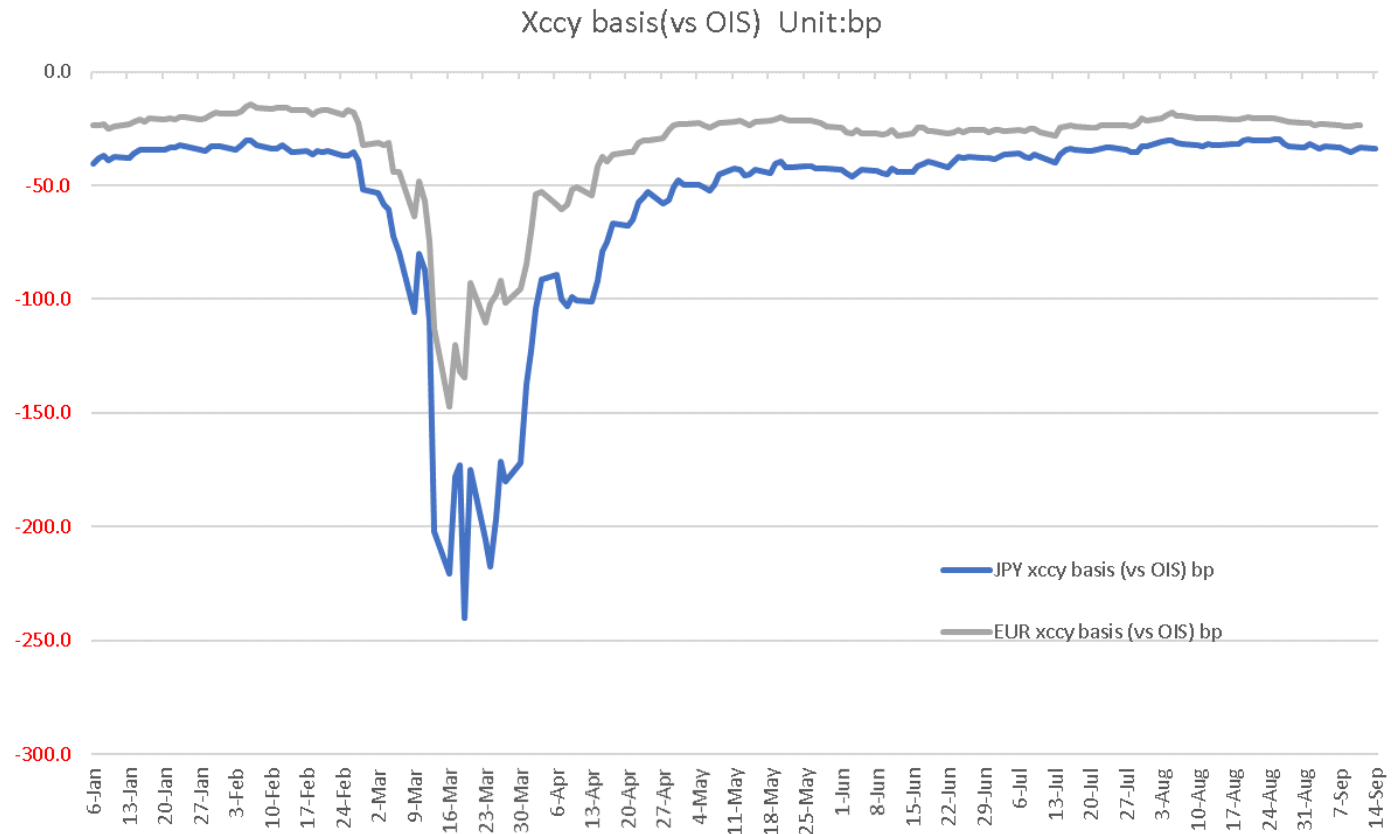
Source : Bloomberg, Citi

## Retail dominates



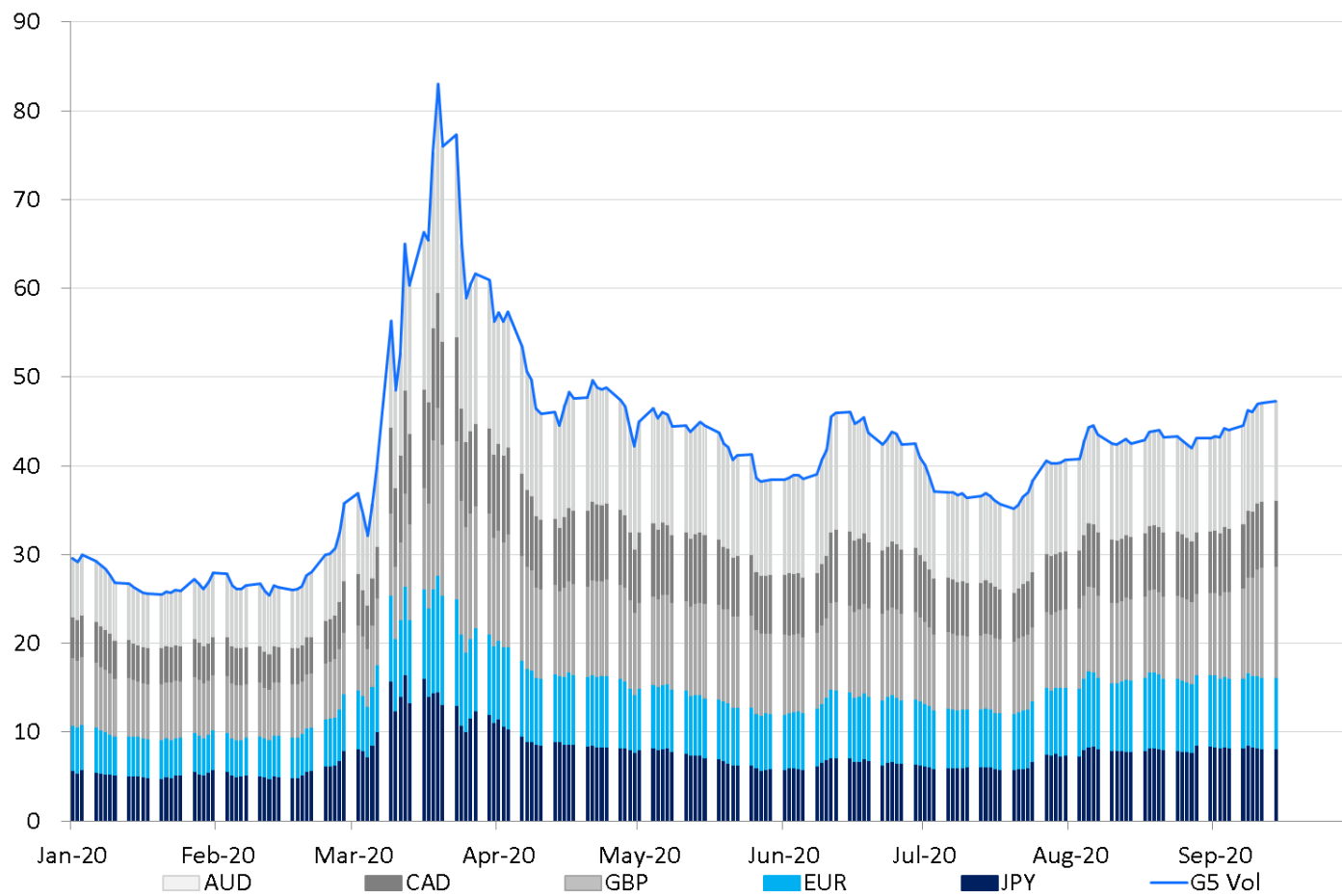
Source : Bloomberg, Citi

# Liquidity



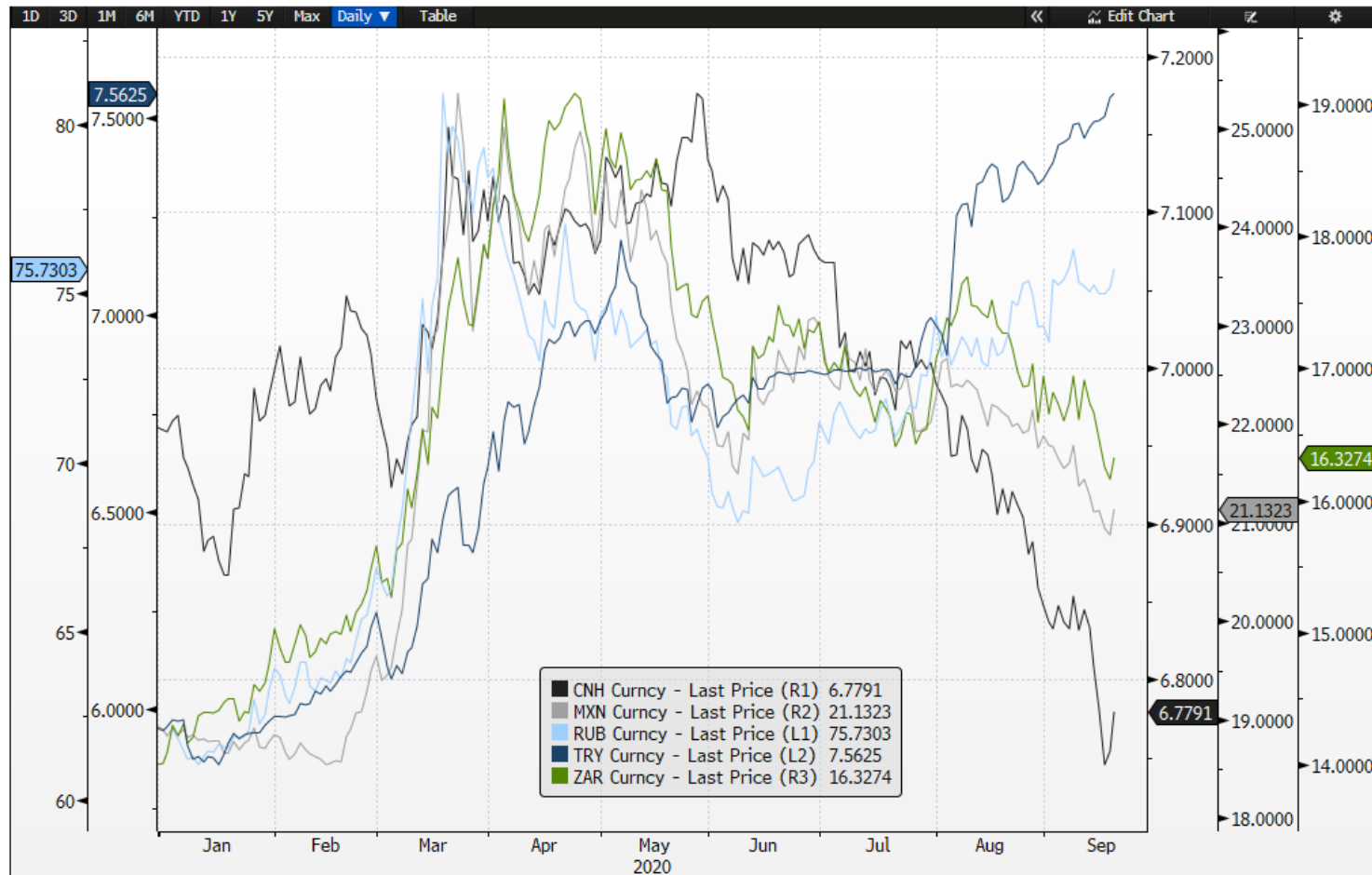
Source : Citi

# Volatility



Source : Citi

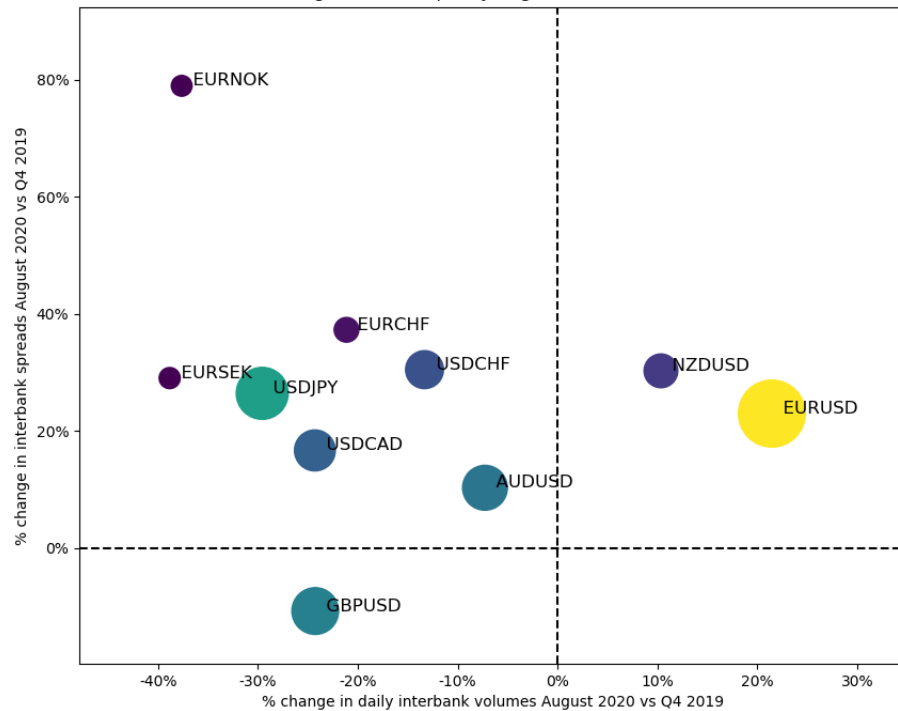
# EM Diverse



Source : Bloomberg, Citi

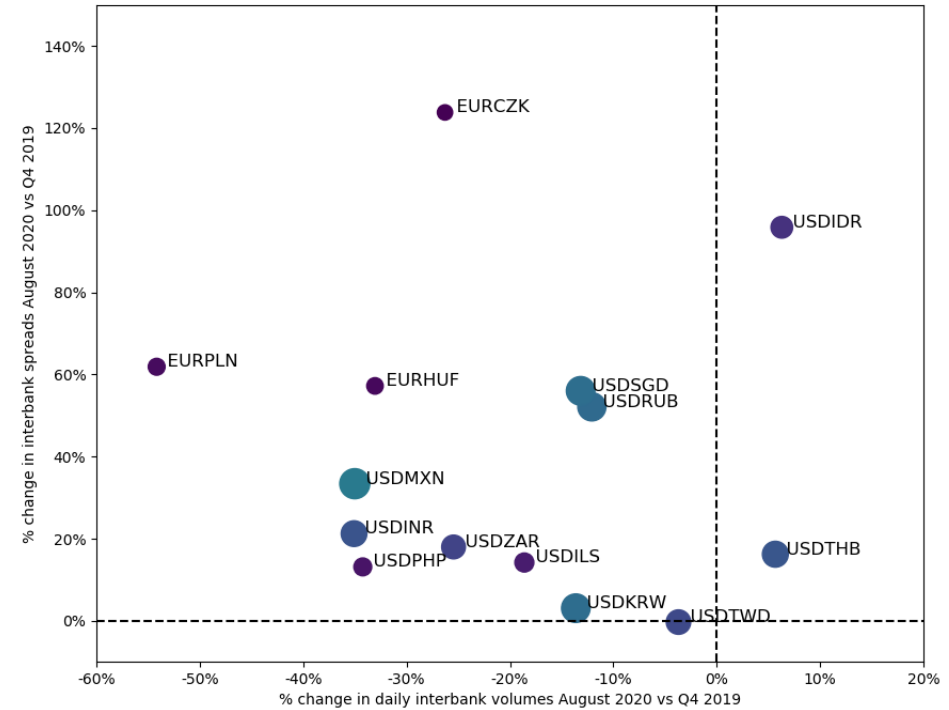
# Microstructure Spreads

Changes in G10 Liquidity August 2020 vs Q4 2019



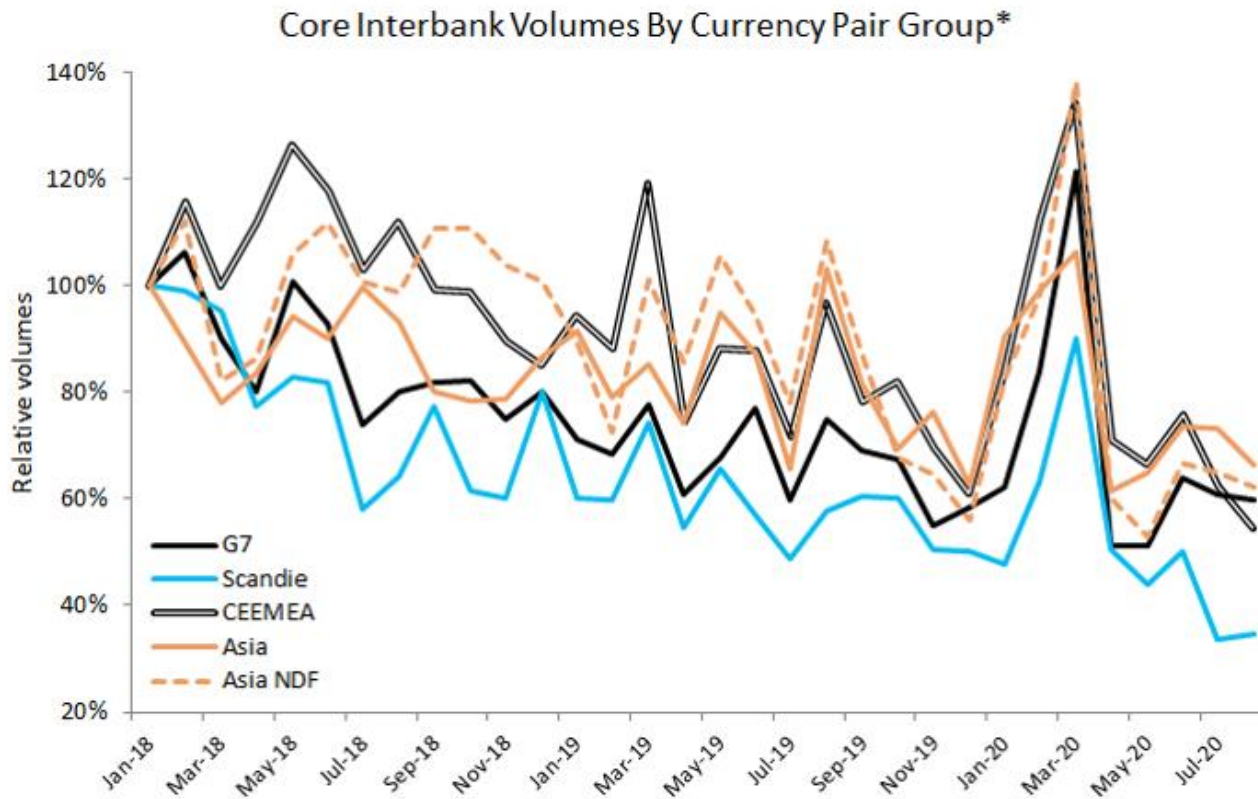
Source: Citi

Changes in EM Liquidity August 2020 vs Q4 2019



Source: Citi

# Microstructure High Level Liquidity Changes

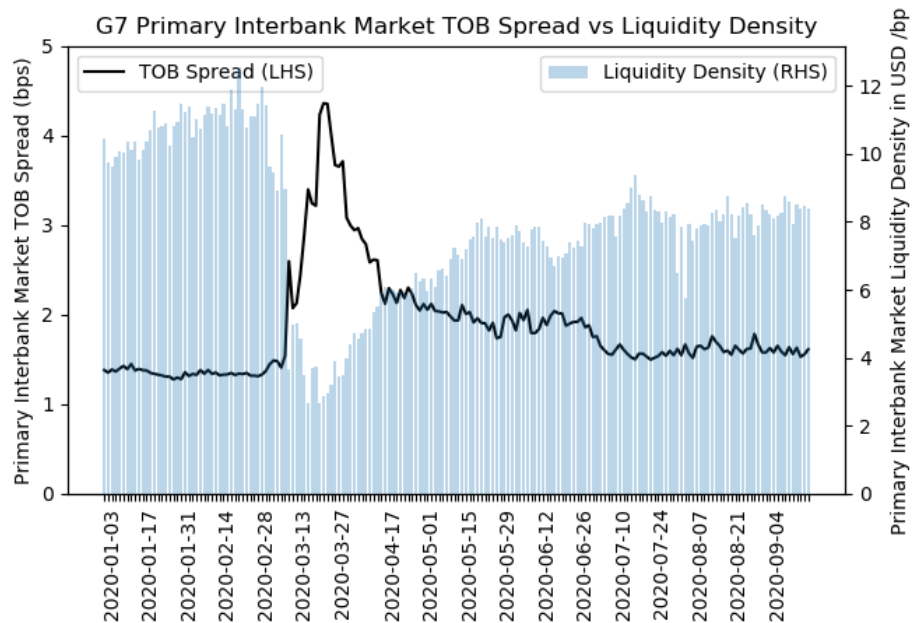


Source: Citi

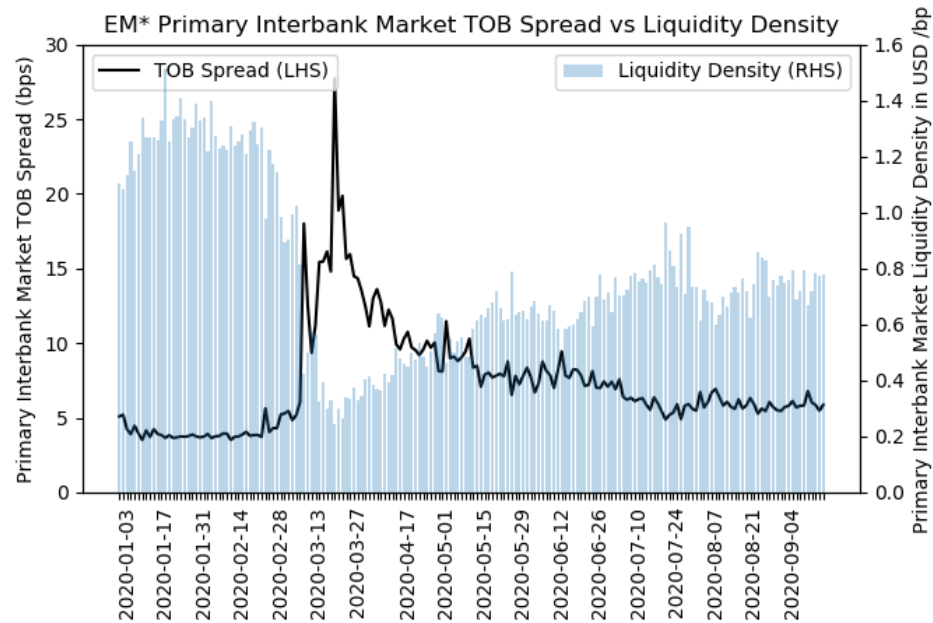
\*Some numbers are derived from estimates. This excludes mid-matching or internalising venues. Numbers are benchmarked relative to January 2018.



# Microstructure TOB Spread and Liquidity Density



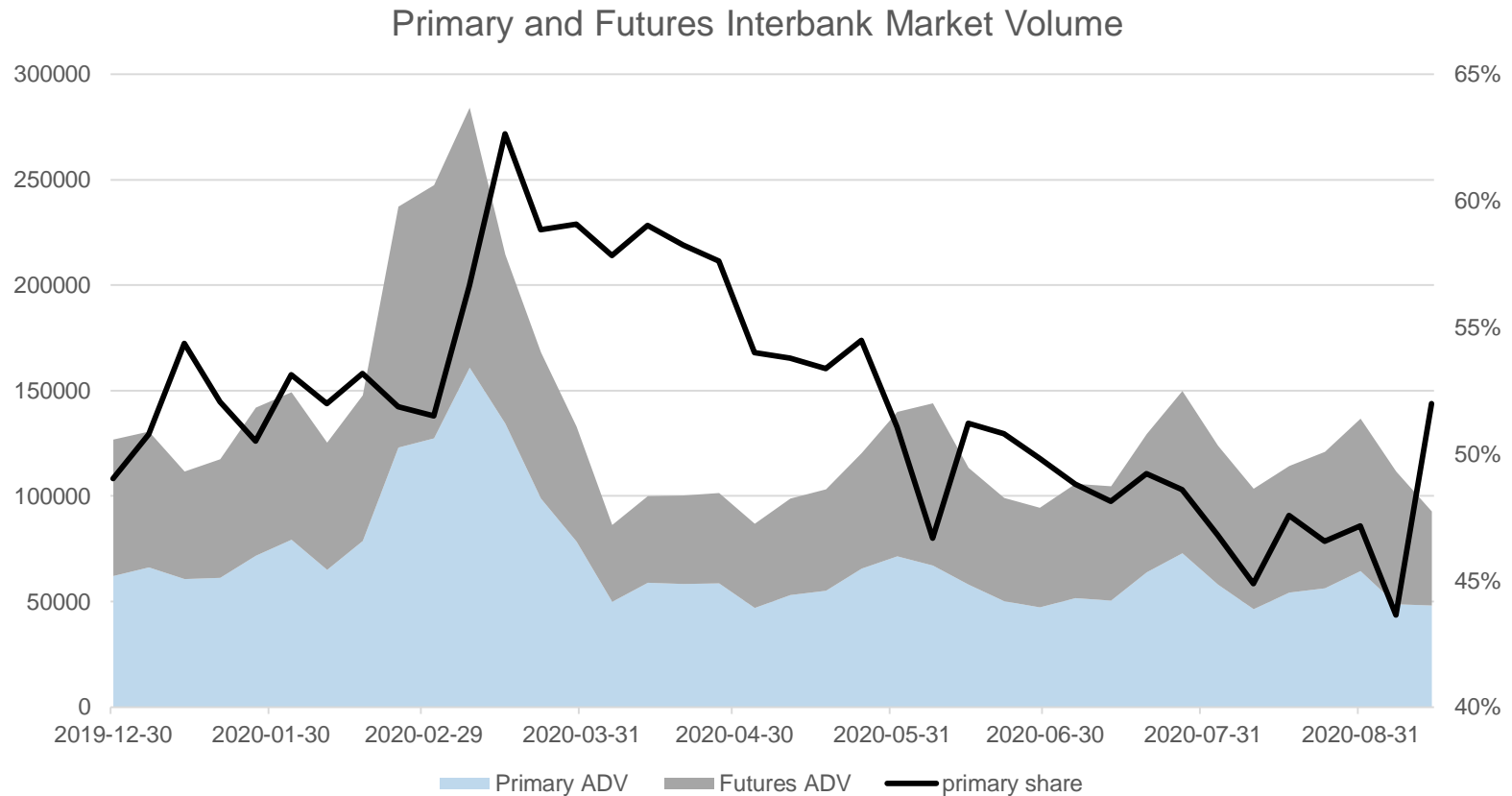
Source: Citi



Source: Citi

\*This is a basket of CEEMEA and USDMXN deliverables

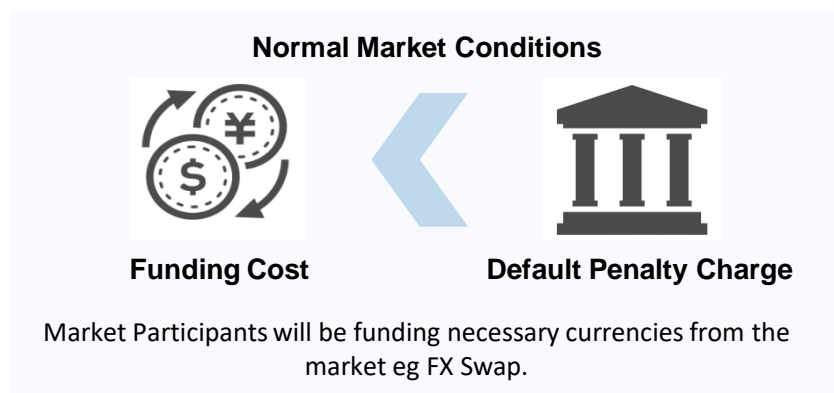
# Microstructure Execution Properties



Source : Citi

# FX Settlement fails

- Incidents relating to industry-wide settlement fails in TRY were recently again being observed.
- TRY O/N funding cost through FX Swap rose drastically over 1,000% in Aug, which was substantially higher than equivalent onshore funding rates in TRY.
- If market participants choose to strategically or intentionally default on their obligation to timely settle, this not only implies settlement risk with the bilateral counterparty, but could have cascading settlement fails, a systemic knock-on liquidity impact and lead to prolonged market disruption. Resolving claims on failed settlement also take long periods of time as they are managed bilaterally with no common standards.
- Market participants are and should be obliged to make their maximum effort to fund their short position in the interbank market and should not take the option to fail settlement due to high FX swap funding costs.\*



\* 2013 BCBS FX Supervisory Guidance : Liquidity risk management framework 3.4.1 A bank should appropriately manage its liquidity needs and risk to ensure that it is able to meet its FX payment obligations on time. A bank's failure to meet its FX payment obligations in a timely manner may impair the ability of one, or more, counterparties to complete their own settlement, which can lead to liquidity dislocations and disruptions in the payment and settlement systems.

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