

# GLOBAL FOREIGN EXCHANGE COMMITTEE

## SUMMARY OF MARKET CONDITIONS BY GFXC MEMBER COMMITTEES

Material for 28 June 2021 GFXC Meeting



## AUSTRALIAN FOREIGN EXCHANGE COMMITTEE

Liquidity conditions and market functioning in foreign exchange markets since the start of 2021 – including that for the Australian dollar – have remained orderly. Measures of market liquidity for the Australian dollar, such as top-of-book spreads, had been consistent over 2021, although one member stated spreads had tightened further in recent months on their metrics. Having risen in March, trading volumes for the AUD had declined in the second quarter of the year. Members opined that this likely due to the Australian dollar being fairly range-bound during this time. With asset markets also orderly, there was little catalyst for Australian asset managers to adjust hedges during this period. It was noted that trading volumes remained high during London trading hours, with little apparent impact from the work-from-home conditions there.

Option market activity had been low in recent months although liquidity continues to remain reasonable. Volatility had been low, likely due to the relatively range-bound nature of markets in this time. One suggestion was that option activity from funds had shifted from foreign exchange markets to commodities and equities.

Conditions in the AUD forwards market had been very orderly in the calendar year to date, particularly when compared to last December, where end-of-year turn effects had seen a washout of trader and hedge fund positions. It was noted that bid-offer spreads in forwards were very narrow, reflecting that traders were comfortable to warehouse risk given abundant central bank liquidity from both the RBA and Federal Reserve.

AFXC

## Update on the Canadian Dollar

The Canadian dollar (CAD) has appreciated about 2.5% against the US dollar year-to-date. The CAD had reached its highest level in almost four years just prior to the June FOMC meeting before depreciating on the back of broad-based US dollar strength. Against a basket of major currencies excluding the US dollar, the CAD has appreciated about 4.5% year-to-date.

The CAD had been one of the main beneficiaries of the global “reflation” trade in the first half of 2021, which had pushed most commodity prices higher. The Bank of Canada Commodity Price Index was up about 33% over the period. The currency had been further supported by the market’s expectation that the Bank of Canada will raise its policy rate before the Federal Reserve. However, the CAD has depreciated fairly rapidly since the June FOMC meeting, which was perceived to be more “hawkish” than market expectations.

The positive tone towards the CAD in the first half of year was reflected in the CFTC net futures positioning report which indicated that net long CAD non-commercial positions had risen to the highest level since before the pandemic. However, more recent data suggest some of these long positions have started to unwind.

There have been no issues with market functioning. Volumes have declined recently following an increase around the April 2021 Bank of Canada policy meeting. Bid-offer spreads in the spot market have compressed to pre-pandemic levels. Bid-offer spreads in forwards also remain relatively tight, about .02 pips for tenors under a week, and .1 pips for the 1-month tenors. FX implied volatility remains subdued, although it did increase after the June FOMC meeting.

## Market Conditions Update from the China FX Committee

### 1. The Global FX Market Overview

In 1H 2021, COVID-19 has remained a major concern haunting the world, vaccination progress has varied, and the global economy has recovered unevenly, causing fluctuations in major currencies. Benefiting from global liquidity abundance and the increasing risk appetite, emerging markets (EM) saw a continuous net inflow of capital, and EM currencies have generally appreciated. Volatility in both developed market (DM) currencies and EM currencies declined slightly.

### 2. China's FX Market Overview

**i. RMB exchange rate:** In 1H 2021, the RMB exchange rate has featured two-way fluctuations, and it remained basically stable at an adaptive and equilibrium level. The CFETS RMB Index, which measures the RMB against a basket of currencies, was 98.21 at the end of May, appreciating about 3% from the beginning of 2021. The USD/CNY swap curve, which first steepened and then flattened, is still steeper than at the beginning of the year. The implied volatility of USD/CNY options remained stable.

**ii. Market liquidity:** In 1H 2021, China's FX market features active trading and relatively abundant liquidity. From January to May, the average daily trading volume in the interbank FX market was above RMB 800 billion, a significant year-on-year increase.

**iii. Cross-border capital flows:** In Q1, China's current account registered a surplus of USD 75.1 billion, accounting for 2.0% of GDP, within a reasonable equilibrium range. Foreign direct investment recorded a surplus of USD 70.5 billion, and foreign investors increased their holdings of Chinese bonds and stocks by USD 73.7 billion, confirming foreign investor confidence in China's pandemic control and economic prospects.

### **3. Issues to Monitor**

- i. Uneven recovery of major economies
- ii. Uncertainty of COVID-19 developments
- iii. Monetary policy of global central banks
- iv. Market sentiment
- v. Geopolitical factors

## Global Foreign Exchange Committee

### **SUMMARY OF MARKET CONDITIONS BASED ON RECENT FEEDBACK BY MEMBERS OF THE ECB FOREIGN EXCHANGE CONTACT GROUP**

At its meeting on 26 May 2021 and in subsequent written comments during the first half of June, members of the ECB Foreign Exchange Contact Group (FXCG) discussed the foreign exchange (FX) market review and outlook, focusing on major currency pairs.

In terms of FX market functioning, the bid-offer spreads for EUR/USD and other major currencies had been declining steadily, including further in June, and had largely returned to pre-pandemic levels. Volatility in FX markets was described as low when compared with the recent decade, although it increased somewhat following the last meeting of the Federal Open Markets Committee (FOMC) held on 16 June 2021. The Group acknowledged generally subdued trading activity in major FX currency pairs, mainly owing to low volatility and mentioned that as a consequence, over the recent months, market participants' interest had shifted to riskier and more volatile asset classes such as crypto assets, offering more trading opportunities and larger expected returns for the time being.

With regard to the outlook for the EUR/USD exchange rate, most members did not expect it to rise meaningfully above 1.24-1.25 and expected the US dollar depreciation to reverse when the FOMC officials would begin discussing their plans to adjust the pace of asset purchases. They felt that the relative monetary policy stance of the respective central banks was the main driver for this currency pair. In fact, in the aftermath of the June FOMC meeting, which brought forward the "tapering" discussion, several FXCG members reported a broad-based demand for US dollars and a strengthening of the US dollar against most currencies. Regarding potential euro-negative risk events over the medium-term horizon, members mentioned the German and then French general elections, taking place later this year and next year.

## GEORGIAN FX Committee view on FX market conditions

The COVID-19 pandemic started to have a negative effect on the Georgian economy starting February 2020. In March, after the declaration of a state of emergency and the closure of the borders, the entry of foreign visitors to the country and expected revenues from tourism essentially stopped.

This reduction reflected to a sharp drop in exports of services, which stemmed from the disruption of revenues from foreign travelers. A considerable decline was experienced by those sectors of the economy in which the participation of foreigners was especially high.

The sharp decline in tourism exports has led to a significant deterioration of the positive dynamics observed on the current account in recent years. The current account deficit to GDP increased to 12% in 2020, rising from the 5.5% of GDP seen in 2019, which had been the lowest level recorded since the beginning of 2000.



The global pandemic had its negative role in other important source of FX - Considering the size of the Georgian diaspora, FX transfers from abroad occupy a significant place in the Georgian economy. Due to the fact that vast majority of FX transfers comes from the EU and Russia, there was a noticeable drop in FX transfers, when the countries started to introduce their own restrictions and lockdowns.

In the Q1 of 2021, the GEL nominal exchange rate depreciated by 1.3% against the US dollar and by 2.5% against the euro, compared to the previous quarter.

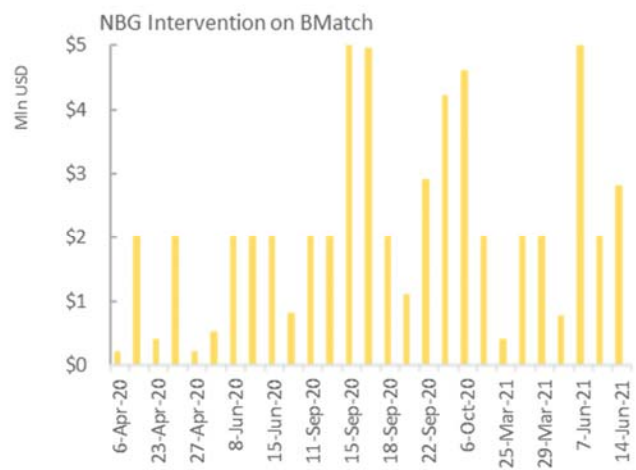
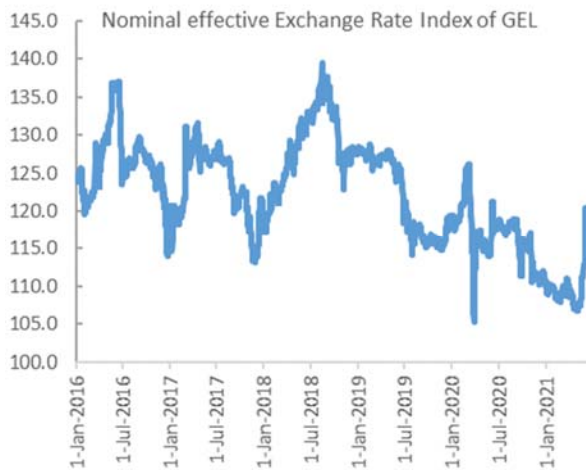
According to average quarterly data, the GEL depreciated against the Russian ruble by 3.7% and against the Turkish lira by 8.3%. In the same period, the nominal effective exchange rate depreciated by 3.2% on a quarterly basis and by 8.5% on an annual basis. As for the price-adjusted exchange rate, in the first quarter of 2021, the real effective exchange rate depreciated by 2.8% on a quarterly basis and by 9.1% on a year-on-year basis. It should be noted that the real exchange rate depreciated against all trading partner countries.

However, since the beginning of the Q2 2021, the figures of international visitors and FX Transfers gradually are back to their pre-COVID level and even slightly increased, leading to an appreciation of GEL nominal exchange rate against the US dollar.

Since the beginning of Covid-19 pandemic, The National Bank of Georgia (NBS) has taken several important measures to mitigate the impact of COVID-19 on the economy and the FX Market.

Since the beginning of the year 2020, the NBG has made 26 interventions (FX Auctions) and sold more than \$873 mln from its FX reserves at the currency market to mitigate the negative expectations, calm the spike-like fluctuations and stabilize the Lari's rate. In 2021 NBG has already conducted 7 interventions and sold more than \$242 mln.

From February 2020 a new foreign exchange trading system – BMatch was introduced by the NBG. BMatch is Bloomberg's foreign exchange trading platform that is based on the principle of automatic "matching" of transactions. Bmatch platform has quickly gained popularity and today the vast majority of FX deals are done in Bmatch. Since its launch NBG bought \$0.5 Mln and sold \$57.8 on Bmatch. The increasing competitiveness and even more transparent environment at BMatch has made it possible to significantly narrow the spreads. BMatch currently has the best rates in the interbank market and, most importantly, conducted deals are a good reflection of the ongoing market sentiment. As of today, NBG, 15 commercial banks, 4 microfinance organizations, 2 Georgian non-banking companies and 1 international investment fund are participating in the BMatch platform.





## GFXC Conference Call June 2021 – Hong Kong FX Market Summary

HKD continued its resilient trend and stayed in the strong side of the peg for the first half of 2021. Contrast to last year, the strong side of the peg has not been challenged so far this year. At the end of 2020, we have seen a booming bourse with busy IPO pipelines leading to high HKD demand and triggering HKMA's strong side convertibility undertaking multiple times. This year, we have seen some cool down in market sentiment. Strong US economic data has raised market skepticism that the low interest rate environment globally may end earlier than expected, and investors worldwide have become more cautious toward risk assets. The Hong Kong bourse is no exception with Hang Seng Index correcting 7% from the top registered in mid-February. IPO listing boom has also subsided with rising number of offers slumped on first day, including big names such as online search giant Baidu and video streaming platform Bilibili. The slightly weakened demand for HKD this year together with ample liquidity in the market has led to HKD rates dropping to an all-time low. 1M HIBOR now stands at just 9bps, compared with 18bps at the start of the year.

The stock market correction this year was followed by a dramatic boom in the cryptocurrency market. With the increased popularity among Bitcoin and blockchain this year, central banks worldwide are accelerating their effort in creating central bank digital currency (CBDC). Catching up with this trend, on 8 June, HKMA also announced its Fintech 2025 strategy with the goal of driving comprehensive use of fintech in the Hong Kong financial sector by 2025. HKMA revealed plans to research the development of its own digital currency "e-HKD", and has set up a working group to

study its feasibility over the next 12 months.

Heading into the second half of the year, we believe the status quo of a robust HKD will remain.

Firstly, our currency peg fundamental remains robust. While the government has had a record fiscal deficit of over USD26bn for the year 2020/2021 due to pandemic related relief spending, Hong Kong still rests with a positive running fiscal reserve of over USD115bn. Signs of economic recovery are also promising with the roll-out of vaccines, and our daily infection cases have been single-digit since April. Secondly, front-end USD rates continue to stay low. While front end USD rates were up after a hawkish FOMC recently, short term USD-HKD rate gap continues to remain narrow as there is no immediate Fed hike concerns, and carry-trade incentive against HKD will be limited. Thirdly, the structural outlook for listing on the Hong Kong bourse remains supportive, as we believe it will continue to be an attractive option for homecoming listings by US-listed Chinese-based companies.

## **Market Conditions – India**

### **Updates for 28 June 2021 GFXC meeting**

#### **1. Reserve Bank of India measures and trends in Domestic Currency**

- i. The surge in Covid-19 cases since middle of March 2021 put INR under downside pressure. FPI flows also turned negative in the month of April, reflecting the investor sentiments over the domestic pandemic situation. INR touched a low of 75.34 in the month of April as Covid-19 cases touched record high and the Reserve Bank of India (RBI) was active in different segments of the forex market to manage the excess volatility. The depreciating pressure was also controlled through initiatives taken by the Central Government and localized containment measures carried out by state governments which caused reduced disruption to the economic activity. With Covid-19 cases count stabilizing and subsequently declining, the downside pressure on the currency subsided and was reflected in the uptick of FPI flows into the equity segment. The gradual and phased unlocking also helped the INR gain. Dollar Index declining from the March levels as markets became more convinced about the transitory nature of inflation and reiteration of accommodative policy stance by Federal Reserve along with gains in peer currencies like Chinese Yuan, which touched the highest levels since 2018, helped INR become one of the better performing currencies vis-à-vis its Asian peers since the start of May as FPI flows resumed with a string of IPOs lined up. During this period, India's forex reserves crossed \$600 billion. However, the June FOMC decision, wherein the Fed brought forward its projections for the first post-pandemic interest rate hikes into 2023, has caused Rupee to depreciate to levels last seen during the first week of May. However, the move was in line with other peers.
- ii. The impact of Covid-19 related restrictions was also seen on the PMI data with services sector contracting in the month of May while manufacturing sector saw a slowdown from the April levels. However, this is expected to bounce back with the cases normalizing across India. The retail inflation figures crept higher and also remained above market expectations at 6.30% for the month of May.
- iii. Monetary policy decisions in this period saw the RBI continuing to maintain status quo on the rate front while continuing to keep the accommodative stance.

The Reserve Bank of India introduced a secondary market G-sec acquisition programme (G-SAP 1.0) wherein the RBI committed to a specific amount of open market purchases of Government Securities with a view to enabling a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions. Against the backdrop of higher pandemic cases and with a view to nurture the recovery, certain additional measures were also announced including time extension of Targeted Long-Term Repo Operations (TLTRO), On-Tap Term Liquidity Facility to ease Access to Emergency Health Services, Special liquidity window for contact intensive sectors in the nature of SLTRO and Special liquidity facility for Small Industries Development Bank of India (SIDBI).

- iv. RBI's continued support and various measures implemented have seen the bond yields soften from the YTD highs touched in the month of March. The 10-year benchmark paper yield softened from 6.27% in the first fortnight of March to around 6.00% currently and has continued to hold steady even after FOMC meet in June as markets remain assuaged by RBI actions in the domestic securities market.

## **2. Regulatory Developments**

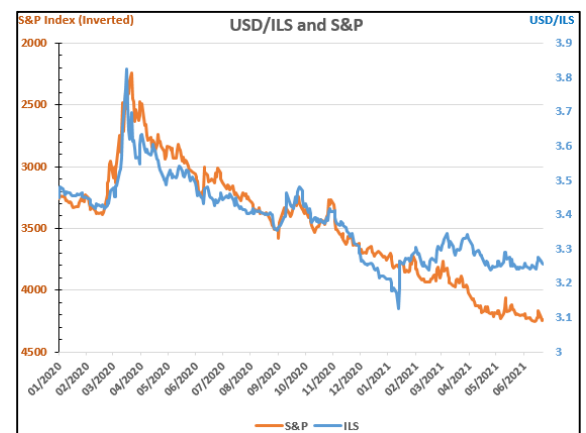
RBI came out with the FPI investment limits in Government Securities for the year 2021-22. The limits for FPI investment in Government Securities (G-secs) and State Development Loans (SDLs) were unchanged at 6% and 2% respectively, of outstanding stocks of securities for FY 2021-22. Additionally, certain specified securities were opened fully for investment by non-residents without any restrictions (these are available for domestic investors as well) under the Fully Accessible Route (FAR). The Reserve Bank of India, with a view to easing operational constraints faced by FPIs and promoting ease of doing business, decided to permit Authorised Dealer banks to place margins on behalf of their FPI clients for their transactions in Government securities (including State Development Loans and Treasury Bills), within the credit risk management framework of those banks.



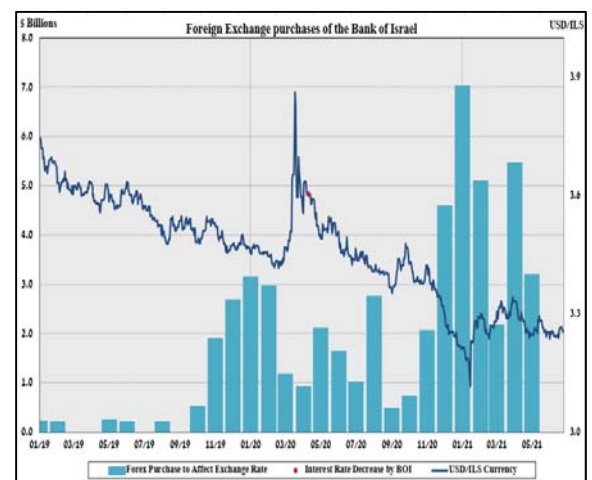
25<sup>th</sup> June 2021

### Recent Conditions in the Israeli FX Market

The Covid 19 crisis started to impact Israeli financial markets in the latter part of February 2020 with the ILS depreciating (Graph 1). In consequence, the BoI injected US\$ liquidity in March by introducing a FX swap program of up to US\$15bn with the domestic banking sector. As a result, the US\$ funding rate in the domestic swap market declined markedly and the spot ILS rate appreciated.

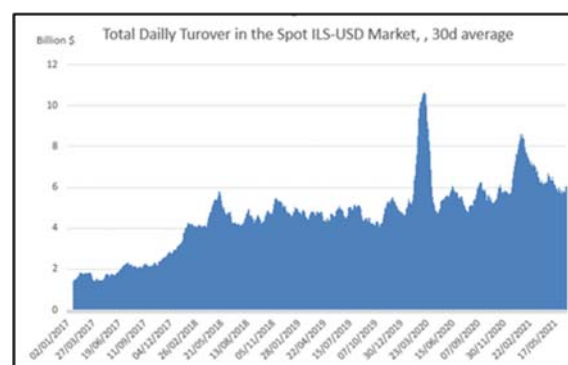


After the initial sharp impact of the Covid 19 on the local FX market subsided, foreign currency flows into Israel's economy intensified, against the background of the growth in the current account surplus, foreign direct investments, large scale foreign currency sales by institutional investors against their investment profits in capital markets abroad (Graph 1) and an increase in investments by nonresident investors in Israeli government bonds, which was also an outcome of Israel's inclusion in the WGBI global bond index.



These factors contributed to a marked appreciation of the shekel, supported also by the weakening of the dollar worldwide against many other currencies. Against this background, and in order to moderate the negative effect of the shekel's appreciation on Israeli economic activity during the coronavirus crisis, the Bank of Israel increased the scope of intervention in the foreign exchange market and in 2020 bought a total of approximately \$21 billion (Graph 2).

As the shekel continued to appreciate in 2021, the Monetary Committee assessed that in order to support the achievement of the Bank of Israel's objectives and the recovery of the economy from the coronavirus crisis, and in particular to support employment in export industries



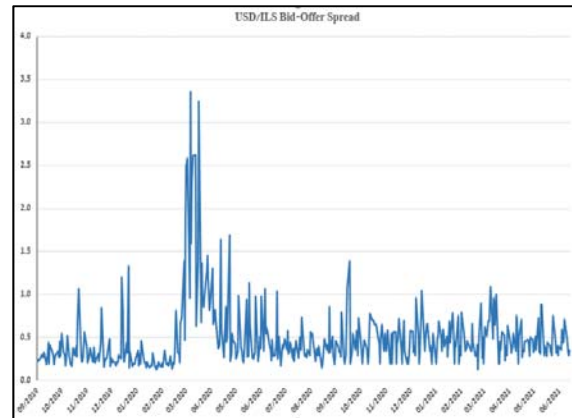
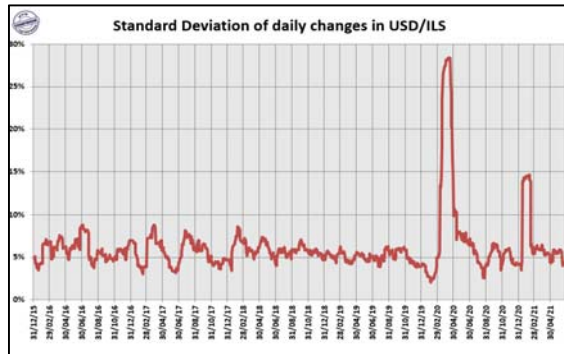
and import substitute industries, continued foreign exchange market intervention at a broad scope would be required in 2021. Therefore, the Committee announced that in 2021 the Bank of Israel would purchase \$30 billion in the foreign exchange market. This amount is markedly larger than the Bank's intervention in the past and its assessments regarding the expected current account surplus this year, so that it would also moderate the forces for appreciation deriving from financial factors.

This program, of which approximately 22bio was utilized by the end of May (Graph 2), stabilized the sharp appreciation through the first half of 2021. The bid-offer spreads remained narrow (Graph 3), whilst the daily volume (Graph 4) and the daily volatility (Graph 5) reverted to normal levels.

Bank of Israel  
Market Operations Department  
Ketty Cohen  
Head of Liquidity Desk



בנק ישראל  
חטיבת השווקים  
קטי כהן  
מנהלת דסק הנזילות



## Market Conditions Update

June 2021

### (Market Conditions Update)

- In the 1H 2021, starting with the FDA's approval of vaccines and its rapid distribution, additional fiscal policies have continuously been announced since the beginning of the year in the U.S., and the resuming economic activity and strong momentum have led to the record rise of the U.S. interest rates. Some experts and market participants raised concerns about the overheating economy, where term premiums and U.S. bond volatility rose significantly and at the same time, USDJPY rose significantly.
- While there are some voices raising concerns about inflation, the financial officials have been very cautious about the dialogue with the market, and with the firmness of central banks' liquidity supply measures and accommodative policy stances, the spread of impact from the rise of the U.S. interest rates to other risk assets are relatively constrained. The FX market is remaining calm and liquidity conditions are stable.

### (Market Participants' activities)

- In Japan, as the spread of COVID-19 had been suppressed since the beginning of the year, some active market participants reduced the ratio of employees working from home and gradually moved toward normalization. However, the resurgence of COVID-19 led to the declaration of a state of emergency in April and have once again raised the ratio of market participants working from home.
- However, in terms of operations, both buy-side and sell-side are now adapted to the work from home environment, and trades are conducted calmly and stably. Market liquidity conditions are stable.
- Compared to pre-COVID-19, direct investment volume has especially been declining, and overall volume has not completely returned from its declining state. However, there are signs of volumes returning, albeit little by little, in step with the resumption of the global economy.
- The downside risk of the market once again being volatile is the spread of variants and an accelerated rise in inflation expectations. However, as the distribution of vaccines continue to proceed, volume will increase, and market function is expected to be maintained through balanced responses from government and central bank officials.



## **Evolution of Market Conditions for the Mexican Peso**

GFXC Meeting – June 28<sup>th</sup>, 2021

Since the previous meeting where markets conditions were discussed at the beginning of December, trading conditions in the Mexican peso have continued to grind slowly towards pre-COVID levels, although some room for improvement is still present. Most recently, bid-ask spreads are around 30% above what was observed in comparable weeks prior to the COVID-19 pandemic, depth metrics are 1.7 times higher and implied volatility and risk reversal levels still have some retracing to do.

The Mexican peso market conditions faced a slight challenge during the period of tightening global financial conditions, observed between February and March, as the peso proved somewhat vulnerable to the external context, although it showed some degree of resilience when compared against its historical sensitivity to such events. Thus, even as trading conditions did not worsen during the episode, their recovery trend did seem to stabilize, particularly as observed in bid-ask spreads and depth metrics, while a pick up in intraday volatility translated into a repricing of implied volatility. Nevertheless, in the last couple of weeks, this recovery in liquidity and depth metrics, as well as in the options market trading conditions, has resumed. On the latter, its worth mentioning that the June 6<sup>th</sup> midterm elections in Mexico did prove to be a distorting event, though on moderate terms, which, as the risk event has faded, has again allowed for a faster reduction in implied volatility and risk reversals.

In terms of traded volume, different data sources consulted by Banco de Mexico seem to point out that volumes have remained somewhat muted for a while, consistently below the activity levels that were observed in 2019 and 2020. On this front, a potential explanation could be derived from a lack of conviction of investors towards the Mexican peso and other peso denominated assets. Throughout the year, positioning on the peso, as gauged by both public and proprietary sources, has been relatively clean, perhaps showing a recent skew towards a modest short peso position in the last weeks. This lack of conviction has proven contrary to the view that most investors had at the beginning of the year, where multiple strategists were not shy to put into writing their positive expectations for the peso, and EMFX, to be one of the favoured asset classes during the year as inflows were expected to return towards domestic fixed income and equity markets. Nevertheless, investors have proved cautious and inflows, particularly into fixed income assets, have stalled during the year.

With regards to USD funding markets in Mexico, conditions continued to be healthy until a week ago, with basis points for cross currency swap remaining low and stable throughout the year, recovering from some of the volatility seen during the US presidential elections and at YE20. The behaviour of USD funding rates implied by FX forwards were similar and persisted at levels close to the OIS curve. During May, Banco de Mexico carried out two USD financing auctions on the back of its swap line agreement with the Federal Reserve offering a total of USD 800 million with interest expressed and allocated for only USD 250 million, proof of the perceived health of other alternative sources of USD funding in Mexico. In that sense, Banco de Mexico prepared for a gradual eventual withdrawal of the facility as participants have reflected no further interest for the instrument going forward. Nevertheless, the Federal Reserve recently announced the extension of the maturity of its swap line agreement with central banks to December 31<sup>st</sup>, 2021, acting as a relevant backstop for hampered market dynamics in case a new episode of funding constraint was endured in the near future. This may be particularly helpful for year-end. Regarding the aforementioned USD funding markets in Mexico, the last week saw some important distortion in the market, as MXN implied forward rates traded in the shorter tenors of the curve at levels almost 150 basis points above the reference rate. However, the general perception from the market was that this was a condition derived from an excess amount of USD with no consensus on the source of the issue. Some market participants

mainly pointed out that there was an excess of USD from the recent roll of USD IMM positions and positioning after the last Federal Reserve's meeting. Still, it is expected that this situation should be temporary and resolve relatively soon.

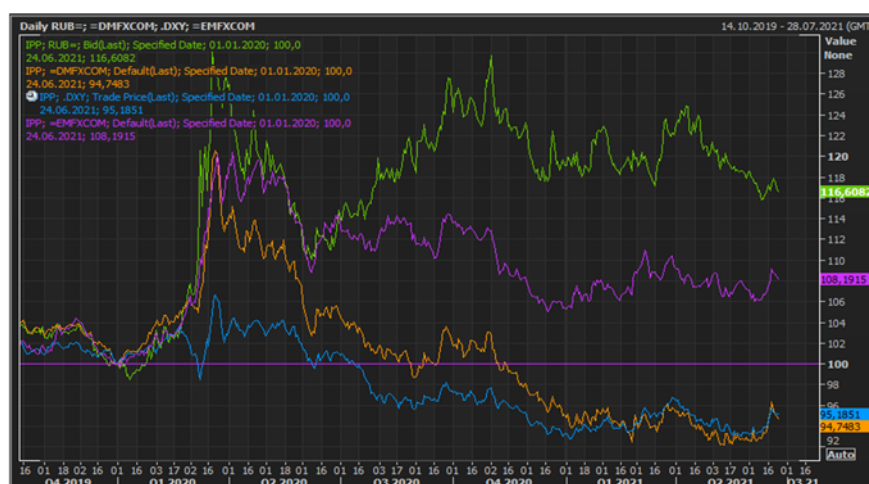
Since the December meeting, the peso has depreciated 2.8% against the USD, not being neither an underperformer nor overperformer amongst its EM peers. Peso dynamics have proved mostly determined by external factors, with an observed pick-up in the sensitivity to US Treasury yields and risk sentiment gauges, like the S&P 500 index, during the period. This sensitivity to external factors, with technical factors also playing a relevant role in intraday dynamics, is expected to continue in the short-term future, especially as investors continue to prove reluctant to reengage with conviction into the peso under a context of reigning global uncertainty.

## The Moscow FXJSC – Market Conditions, Russia

24 June 2021

During the reporting period, economic activity recovered significantly in many countries, and the outlook for global growth improved thanks to the launch of a large-scale vaccination against COVID-19 and support measures by leading regulators. According to April estimates of the International Monetary Fund (IMF), global GDP growth in 2021 will amount to 6.0% after a decrease by 3.3% in 2020. Under these conditions, the global financial markets are in a favorable mood: stock indexes in the US (S&P 500) and emerging markets (FTSE Emerging Markets) have reached new historic highs, oil prices have returned to pre-pandemic levels, and record net inflows of portfolio investments in the EMs have been recorded.

Episodes of increased volatility on external markets in the reporting period, as well as aggravation of sanctions risks in April 2021 (announcement of the US sanctions against the purchase of the Russian ruble-denominated government debt in the primary market from June 14) have not affected the stability of the Russian financial market. The situation on the Russian financial market continued reflecting the global market trends, but the sanctions fear and more than expected capital outflow prevented the ruble exchange rate from evaporating the country risk premium which increased last year against other EM-commodities currencies as well as from DM-commodities and DXY index of dollar:



% Changes of USD against RUB (green), EMFX Commodities currencies, DMFX Com, and DXY dollar index. So, volatility clam down and ruble appreciated but the gap is still quite significant. Market share of foreign holders of OFZ (Russian Government Bonds) is reached the lowest level since 2015 at 19.5%.



Yield of US10YT (grey) on LHS and RUB interest rates and RU10YT (red) on the RHS with inverted Brent oil price on the sub chart below. Orange line – CBR's key rate is now 5.5% which is in the middle of the neutral rate range with CPI target at 4%. CPI YoY in year reached 6%. CBR communication is still very hawkish which should protect ruble from the weakening and limit the inflation expectation growth.

Bank of Russia one of the first who started monetary policy normalization based on actual inflation data and expectation of rapid economic growth in 2021. The Central Bank already made three hikes and market expectation is to see another 50 bp hike at the end of July 2021.

The Bank of Russia, as part of its inflation targeting strategy, makes monetary policy decisions on the basis of a medium-term forecast. The forecast is updated at the reference meetings of the Board of Directors on the key rate in February, April, July and October. Key indicators of the forecast are published together with the press release at the end of each benchmark meeting of the Board of Directors on the key rate. Starting with the key rate reference meeting of April 23, 2021, the indicators include the information on the most probable trajectory of changes in the key rate of the Bank of Russia over the forecast horizon (currently, up to and including 2023) at the time of update of the forecast. This trajectory corresponds to the macroeconomic conditions of the base forecast of the Bank of Russia and the monetary policy aimed at solving the problem of maintaining price stability - inflation "near 4% all the time".

Bank of Russia also continued making regular FX operation to mirror Government FX trades for the budget rule, taking away the excess of the foreign currency from the market due to growth of the oil prices over budget cut price around 43.3 USD for barrel of brent to replenishment of country welfare fund.

Although uncertainty with respect to external challenges remains, the stable macroeconomic situation and the financial sector's margin of safety will contribute to the stability of the Russian economy. The Bank of Russia is ready to use its toolkit to maintain financial stability if necessary.<sup>1</sup>

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<sup>1</sup> This Market Conditions Report is based on the papers of Bank of Russia published on [www.cbr.ru](http://www.cbr.ru)

# Summary of market conditions in the Scandinavian FX market

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## **Development in Danish kroner (DKK):**

- DKK has traded on the strong side of the central rate with low volatility since the beginning of 2021. Occasionally, Danmarks Nationalbank has intervened and bought EURDKK throughout the period to counter increased demand for Danish kroner from domestic participants primarily derived from hedging of FX exposure.
- Market participants are reporting unchanged liquidity in the market. The daily trading range remains stable with most activity stemming from domestic participants.
- The technical adjustment of the monetary policy instruments in March was well-received by market participants and FX swaps are again trading close to par versus euro.
- EURDKK may fluctuate by up to 2.25 per cent on either side of the central rate. However, Danmarks Nationalbank ensures that the fluctuations are far smaller in practice. This reflects that Danmarks Nationalbank takes consistent action as the krone exchange rate starts drifting away from the central rate.

## **Recent developments for Swedish Krona (SEK):**

- Recent months have been rather lacklustre when it comes to activity in SEK. Since April, EURSEK has been trading in a tight range between 10.20 and 10.05. Overall, Swedish macro data has been somewhat stronger than expected, but the impact on SEK has been very limited. Volatility, both implied and realized, is trading around multi-year lows.
- In February, the Riksbank launched daily exchanges of SEK into USD and EUR. Each month around 5 billion SEK is sold and the operations will continue for almost 3 years. The purchases of USD and EUR are executed with the aim of having an appropriate, long-term financing of the foreign exchange (FX) reserves and hence does not fulfil a monetary policy purpose. Since exchanges are linear, quite small and done on a daily basis, no significant effect on SEK has been observed.
- Market liquidity in SEK seems to be adequate at most times, but from time to time there is a lack of market depth in SEK. However, it has not really materialized into any pick up in volatility.

## **Recent developments for Norwegian Krone (NOK):**

- In the wake of the COVID-19 outbreak, the Norwegian krone reached record weak levels in March last year. Since then, the krone has in large been in an appreciating trend, helped by a higher oil price and an improved risk sentiment in financial markets. The krone measured against the import-weighted krone exchange rate is now at a stronger level than seen before the outbreak of COVID-19.
- Implied volatility has come down significantly from record high levels in March last year, but is still higher than before the outbreak of COVID-19. The last few months, implied volatility has come down somewhat.

- Liquidity in the market for Norwegian kroner has normalized compared to March last year, but the market for Norwegian krone is small, and at times liquidity can be poor.

## SUMMARY OF CONDITIONS IN THE SINGAPORE FX MARKET (JUNE 2021)

Key Drivers. Over the past six months, the key FX market drivers were:

- Global inflation and implications for monetary policy outlook. The strong economic recovery amidst supply dislocations, against a backdrop of fiscal and monetary support, triggered concerns about higher inflation in the US and other countries. This caused global yields to rise in Q1, taking their cue from US Treasury yields as markets anticipated an earlier end of the Fed's monetary accommodation. However, markets coalesced in Q2 toward the Fed's view that the surge in inflation prints would be transitory, that monetary policy would continue to be accommodative to support the recovery in the US labour market, and that any plan to taper monetary support would be telegraphed to the markets well in advance. Notwithstanding, for the first time in many years, markets globally became more watchful of central bank policy outlook amidst turn-by-turn inflation prints.
- Resurgence of COVID-19 infections in many countries. A resurgence of COVID-19 cases in early-Q2 linked to more infectious variants led to the re-enactment of movement controls in many countries, including Asia, placing a dampener on the earlier sharp rebound in growth in Q1. COVID-19 cases also increased in Singapore in May 2021, albeit from low levels, leading to the tightening of safe distancing measures from 14 May to 20 June 2021. Measures have since been eased slightly as caseloads have come down from peaks and vaccination rates increased, although work-from-home remains the default for workers that are able to.

Asian FX Markets. Asian currencies generally weakened against the backdrop of broad US Dollar (USD) strength in Q1, before retracing losses in Q2, to end the period broadly unchanged (Figure 1). While broad USD sentiments remained a key driver of Asian EM FX in recent months, some differentiation has emerged amidst the varying speeds of vaccinations and intensities of pandemic resurgence, as well as available room for monetary and fiscal policy support amidst rising inflation. Generally, North Asian currencies outperformed South and Southeast Asian currencies.

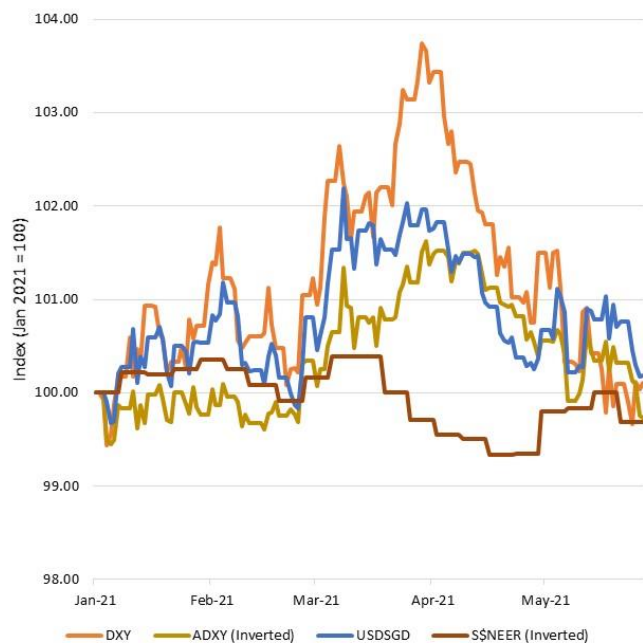
Singapore Dollar (SGD). Since the beginning of the year, the SGD weakened slightly against the USD (Figure 1) in line with other regional currencies, while the Singapore dollar nominal effective exchange rate (SGD NEER) remained relatively stable. USD/SGD FX liquidity conditions were mixed, and remained below pre-crisis levels. USD/SGD FX implied volatilities eased over the period since the turn of the year (Figure 3), while bid-ask spreads widened slightly in Q1 on the back of the bond market volatility before narrowing again subsequently (Figure 4). SGD FX spot turnover volumes remained broadly stable over the period (Figure 5).

Key funding markets. MAS continued to maintain ample SGD liquidity in the banking system to support banks' intermediation of credit to businesses and households. SGD interest rates remained stable, and at low levels consistent with USD interest rates. For example, the 3-month compounded Singapore Overnight Rate Average (SORA) averaged 0.19% since the start of 2021, compared to 1.27% in January 2020 before the COVID-19 pandemic (Figure 6). Domestic and regional USD funding conditions also remained stable, supported by the availability of the MAS USD Facility and, more broadly, flush global USD liquidity. For example, market functioning in the USD/SGD FX swap market, as proxied by the bid-ask spread of the 6-month tenor and regional USD funding cost via FX and basis swap markets, generally remained at prevailing levels prior to the COVID-19 pandemic (Figure 7, 8 and 9).

Indicative Survey Rates. In 2020, the SFEMC commenced a review of the SFEMC Indicative Survey Rates for Asian NDF markets. Introduced in 2004, the Indicative Survey Rates serve as disruption fallbacks in the event of a price source disruption in NDF onshore reference benchmarks, and mitigate critical market and trading risks associated with such disruptions. In the past year, the SFEMC developed a Best Practice Guide and updated rate setting Methodologies, while MAS clarified its regulatory expectation of participating banks, with the intent to support banks continued contribution to the surveys. In 2H 2021, the SFEMC aims to work on testing the updated Indicative Survey Rate procedures.



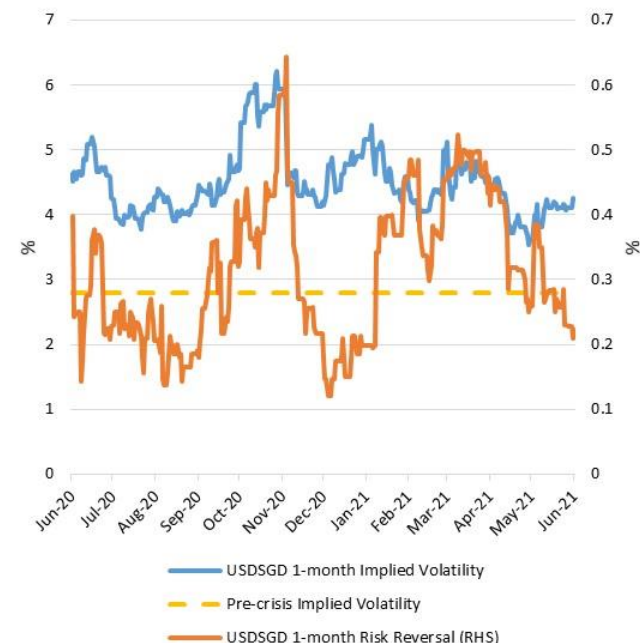
**Fig.1: USD/SGD and SGD NEER movements**



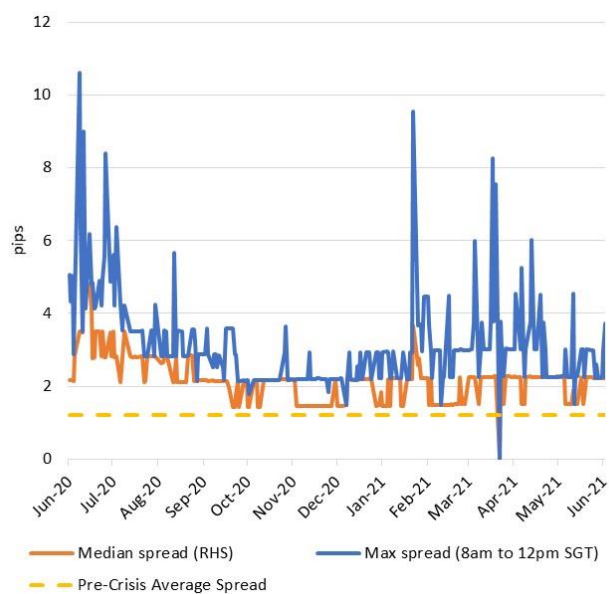
**Fig. 2: 10Y UST and SGS Yield movements**



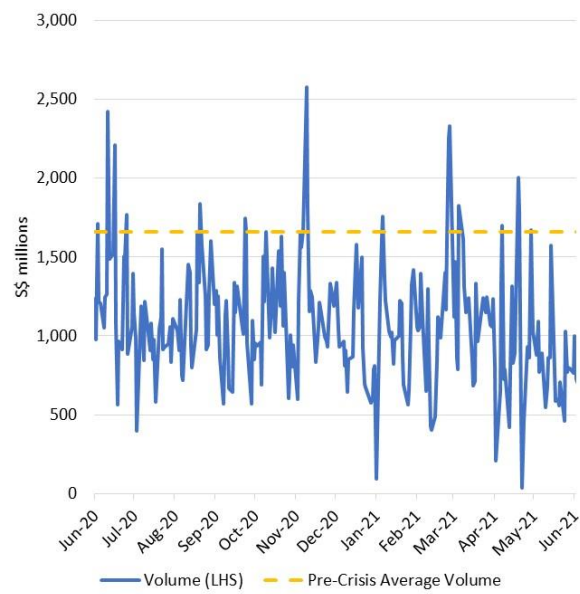
**Fig. 3: USD/SGD Volatility and Risk Reversal**



**Fig. 4: USD/SGD Bid-Ask Spread**



**Fig. 5: USD/SGD Volume**



**Fig. 6: 3M Compounded SORA**

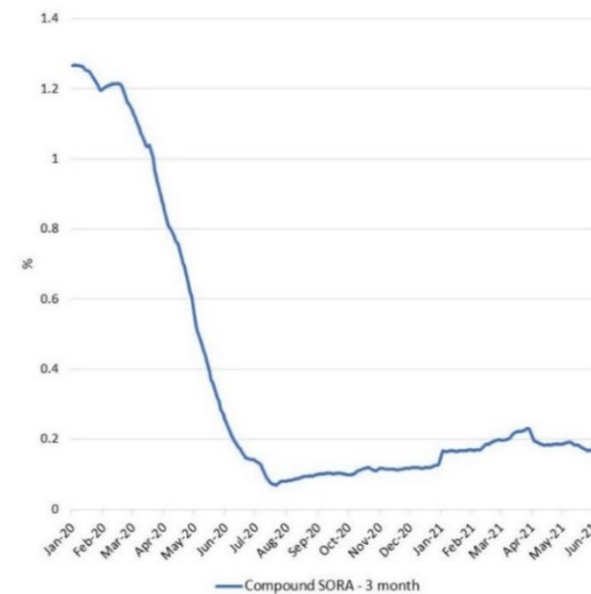


Fig. 7: 6M SGD Onshore Forwards Bid-Ask Spread

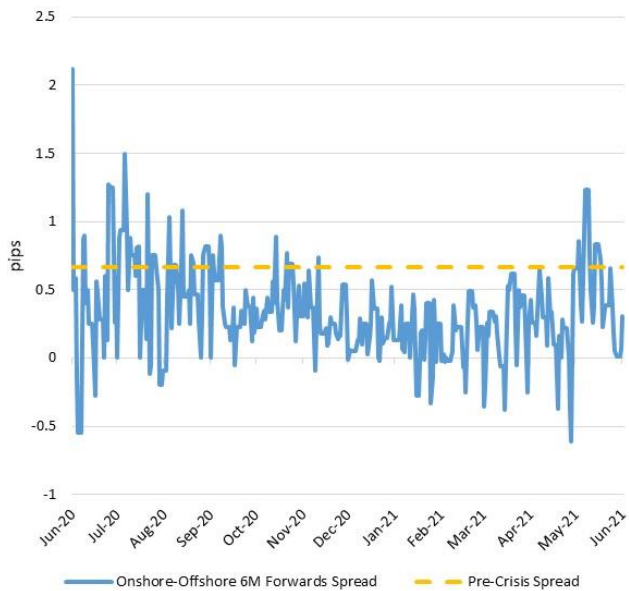


Fig. 8: Implied Regional Term USD Funding Rates (3M)

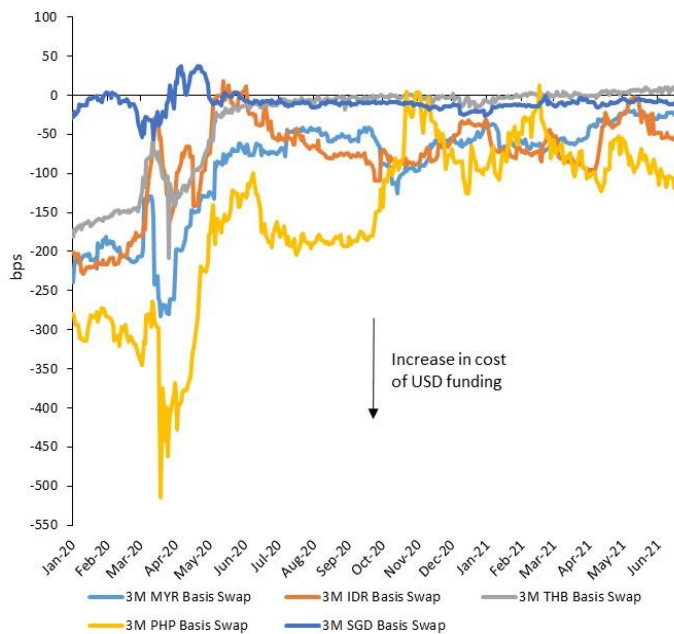
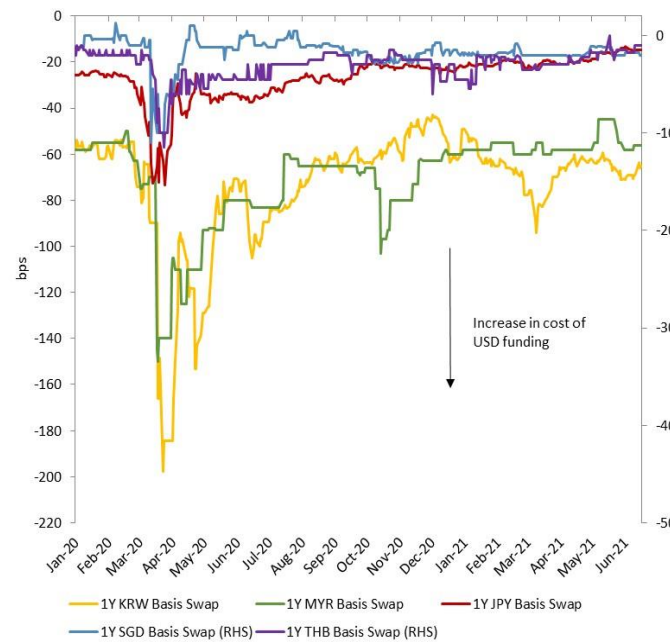


Fig. 9: Regional Term USD Funding Rates (1Y)



June 2021

## Summary of market conditions in the South African foreign exchange market

### Spot market conditions

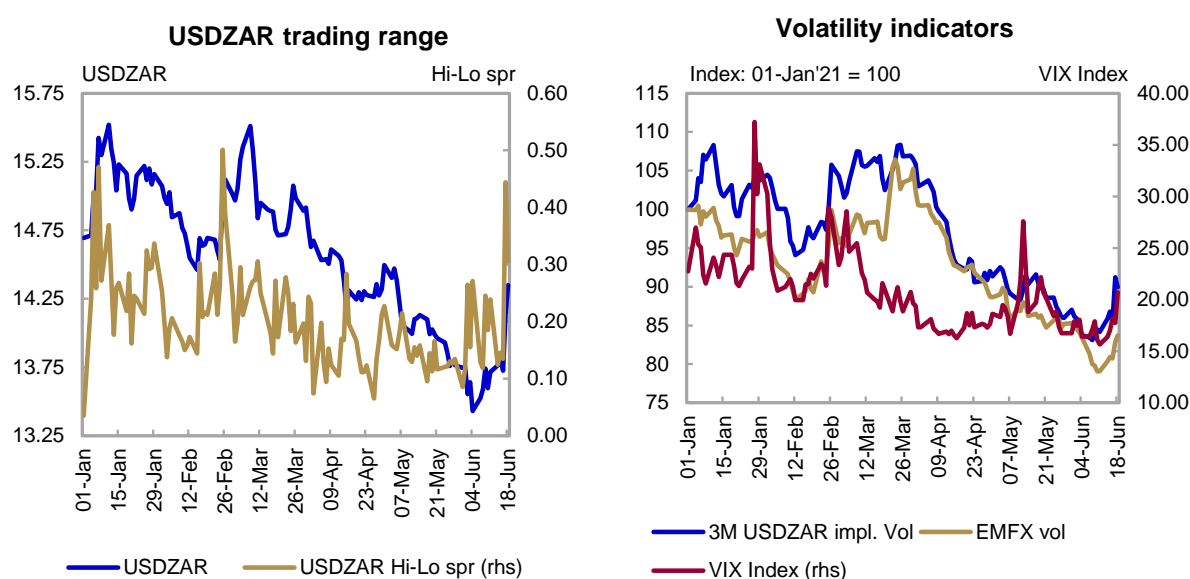
The South African rand (ZAR) appreciated by more than 3% against the US dollar (USD) year-to-date, largely driven by positive market sentiment; higher commodity prices; and a broadly weaker USD. The international backdrop was also supportive as global markets continued to be buoyed by positive global growth prospects and accommodative monetary policy by major central banks. On a traded weighted basis, the ZAR appreciated by 5% year-to-date.

The ZAR was among the best performing emerging market (EM) currencies, having appreciated to R13.4300, its best level since March 2019. SA-specific factors which contributed to the appreciation of the ZAR included, amongst others, positive terms of trade; improving SA fiscal metrics; and optimistic growth prospects. Further gains on the ZAR were, however, limited by rising Covid-19 infection rates, slow-pace of vaccine rollouts, and the power outages. The ZAR also remains vulnerable to short-term USD strength amid US Federal Reserve tapering expectations, rising bond yields and potential for risk-off sentiment.

Measures of volatility in the global FX markets eased to pre-Covid 19 levels. The 3-month USDZAR options implied volatility declined to 13.36%, a level last seen in February 2020. The average USDZAR trading range narrowed to around R0.85 in May from R1.15 in January.

Liquidity conditions have normalised to pre-Covid levels, with the USDZAR bid-offer spread narrowing to 200 pips in 10\$ZAR. Meanwhile, the daily average turnover for spot transactions increased to USD2.3 billion in April, compared to USD1.9 billion in January.

**Figure 1: USDZAR trading range and volatility indicators**



Source: Bloomberg

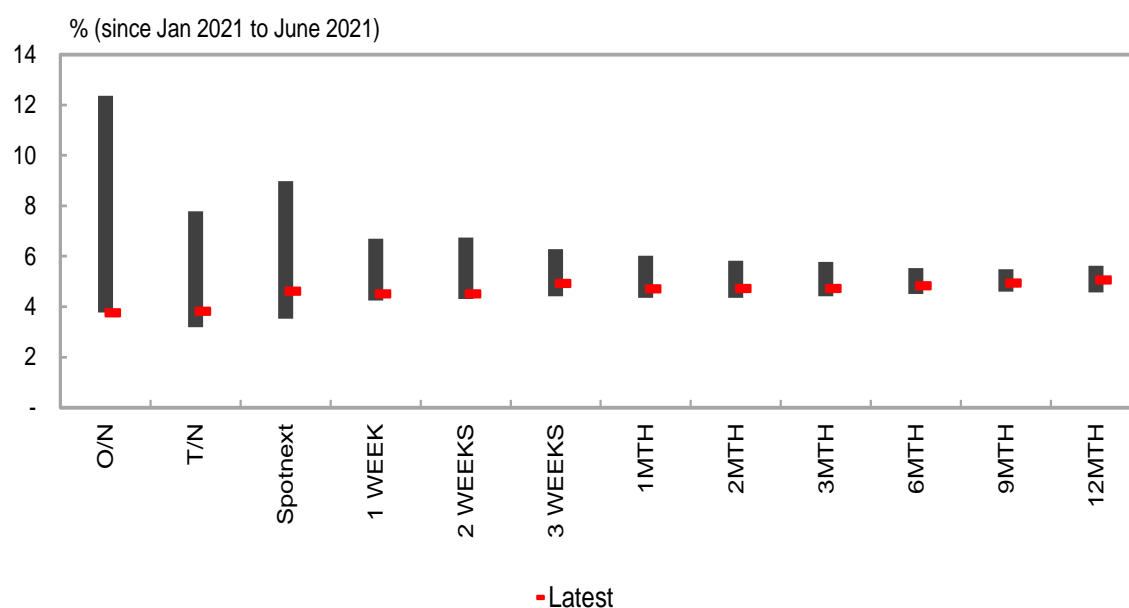
## FX forward market

Liquidity conditions in the FX forward market remained volatile, marked by elevated FX-implied rates. The spreads between short-term FX implied rates and the policy rate widened sharply and persistently, mainly reflecting seasonal trends - which tends to worsen over month- and quarter-ends. Factors contributing to high and volatile cost of funding in the domestic forward market included, amongst others, excess USD liquidity; limited absorption capacity and ability to efficiently deploy the USD liquidity in the banking sector; and central bank's use of FX swaps to sterilise loans from the international finance institutions (IFIs). Market segmentation also prevented high FX implied rates from being arbitrated away.

Nevertheless, the domestic forward market is functioning, price discovery has not been impaired and commercial banks continue to quote two-way prices, while market participants are able to raise the required funding on demand. Recently, the liquidity conditions in the forward market have, however, shown some improvement, with the short-term FX implied rates at times converging towards the benchmark policy rate.

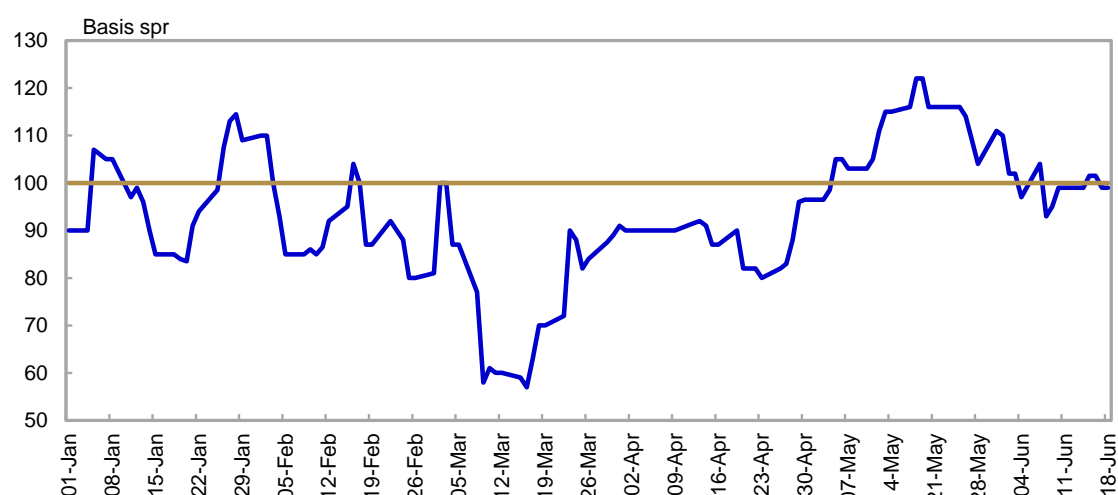
In line with increased funding pressures in the FX forward curve, the 1-year ZAR cross currency basis swap points increased to a historical level of 122 basis points (bps) but has since stabilised to level of around 100 bps. The spread remained above a 5-year average of 29 bps.

**Figure 2 (a): FX implied rates**



Source: Refinitiv

**Figure 2 (b): 1-year ZAR cross currency basis swap**



Source: Bloomberg

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Zurich, 22 June 2021

## Swiss FX Committee view on FX market conditions

Since the last GFXC call in March, the CHF has appreciated by around 1,5% in nominal trade-weighted terms, thus reversing some of its losses of the first quarter of 2021. The CHF is still 1% stronger than at the beginning of 2020 and before the outbreak of the Covid-19 crisis (Chart 1).

Observed spot market liquidity was somewhat lower than usual. Spreads in the interbank market have widened slightly and have been mostly above their long-term averages in recent months. Turnover on primary markets has remained below long-term averages, in particular for EURCHF.

The implied volatility for EURCHF and USDCHF mostly trended lower in line with other major pairs in the G10-universe, returning to similar levels that prevailed before the outbreak of the pandemic.

FX swap market conditions remained calm. Apart from two auctions in March covering the quarter-end, there was no demand for USD repos at the Swiss National Bank this year (Chart 2). In view of the sustained improvements in USD funding conditions and low demand at recent USD liquidity-providing operations, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the Federal Reserve, jointly decided to discontinue offering USD liquidity at the 84-day maturity (see [press release](#) date 23 April 2021). This operational change will be effective as of 1 July 2021. These central banks will continue to hold weekly operations with a 7-day maturity.

Chart 1: CHF spot market

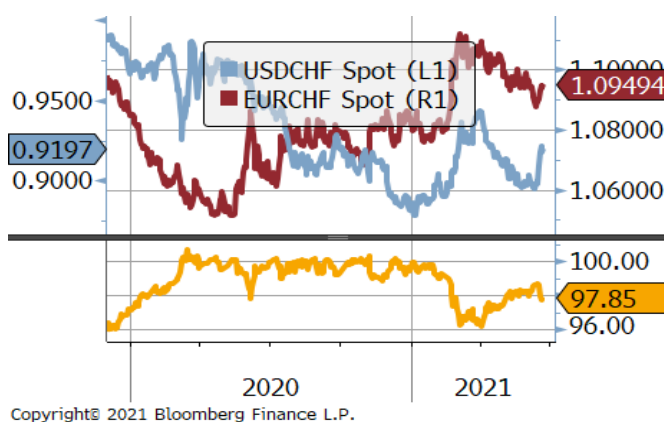
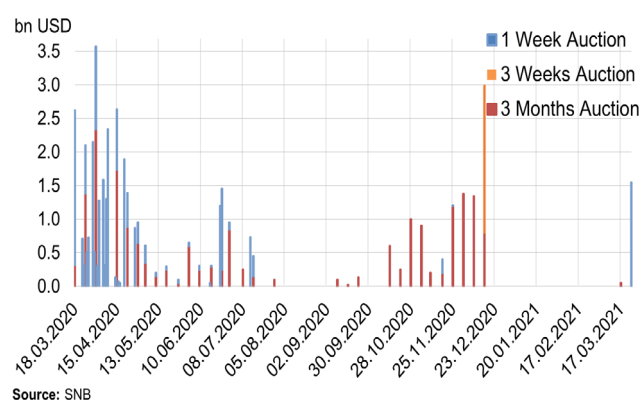


Chart 2: SNB's USD Repo Auctions



## **GFXC Video Conference – 28 June 2021**

### **Update on FX Market Conditions**

#### **London Foreign Exchange Joint Standing Committee (FXJSC)**

- Market conditions have remained sanguine over the past few months. Market views have been conducive of a low volatility environment. Front end interest rate differentials have been small, with central bank policy rates all close to zero, while FX movements has been subdued relative to other asset classes.
- In G10 FX, market function has been good, with market depth and bid-ask spreads back to pre-pandemic levels. Volumes across primary market venues have broadly reduced over the past few months, and sit below a one-year average. Market measures of implied currency volatility reached pre-pandemic lows earlier in June.
- In terms of market trends, sterling has been broadly stable in Q2, holding an appreciation of approximately 4% seen in Q1, that was primarily due to the relative pace of the UK's vaccination programme, lockdown easing and improvement in economic forecasts. The US dollar, having rallied in Q1, unwound these gains in Q2, and has appreciated approximately 1% following the latest FOMC. The euro is broadly unchanged year-to-date, while the yen has continued its decline throughout 2021, down almost 6% YTD. Moves in EM currency pairs remained mostly idiosyncratic against the US dollar.

June 22, 2021

**The following reflects NYFXC discussions on current FX trading conditions**

- In G10 FX, bid-ask spreads, volumes and market depth have returned to pre-pandemic levels for most currency pairs.
- In some EM currency pairs - particularly those that experienced more pronounced volatility during the pandemic such as the Mexican peso and Brazilian real - liquidity measures by some estimates remain at roughly 70 percent of pre-COVID levels.
- Shifts in activity at top of book pricing are among the more notable differences between current FX liquidity conditions and the pre-pandemic environment. Top-of-book pricing has been characterized as more “noisy” (sharp micro moves with quick reversals) due to greater electronification and algo usage in FX trading.
- Orderbook depth at levels below top-of-book were generally reported to be steady in most G10 pairs, and consistent with pre-COVID conditions.
- By one estimate, roughly 70 percent of traders remain in a work from home posture and continue to rely more heavily on electronic execution methods.
- The theme of declining primary market volume continues to persist, which is viewed as impacting overall price discovery in cash markets.
- In some NDF markets, particularly in the Americas region, bid-ask spreads were reported to be roughly 2 standard deviations compared to pre-COVID.
- NDF volumes have been characterized as episodic- rising around market events, while remaining depressed otherwise. Perhaps counterintuitively, NDF conditions are reportedly more liquid amid elevated volatility, as those events are where there is elevated 2-way interest in the market.