

# ECB Foreign Exchange Contact Group

Review of recent markets developments and outlook

26<sup>th</sup> March 2025

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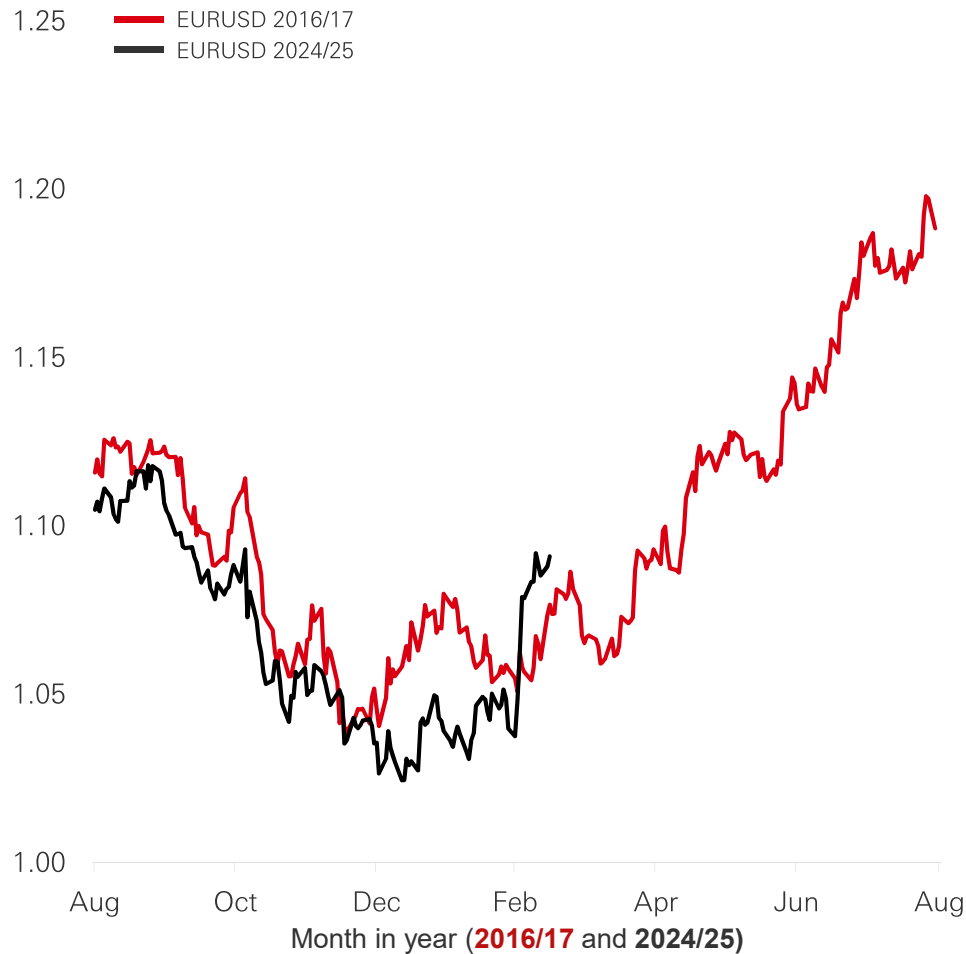
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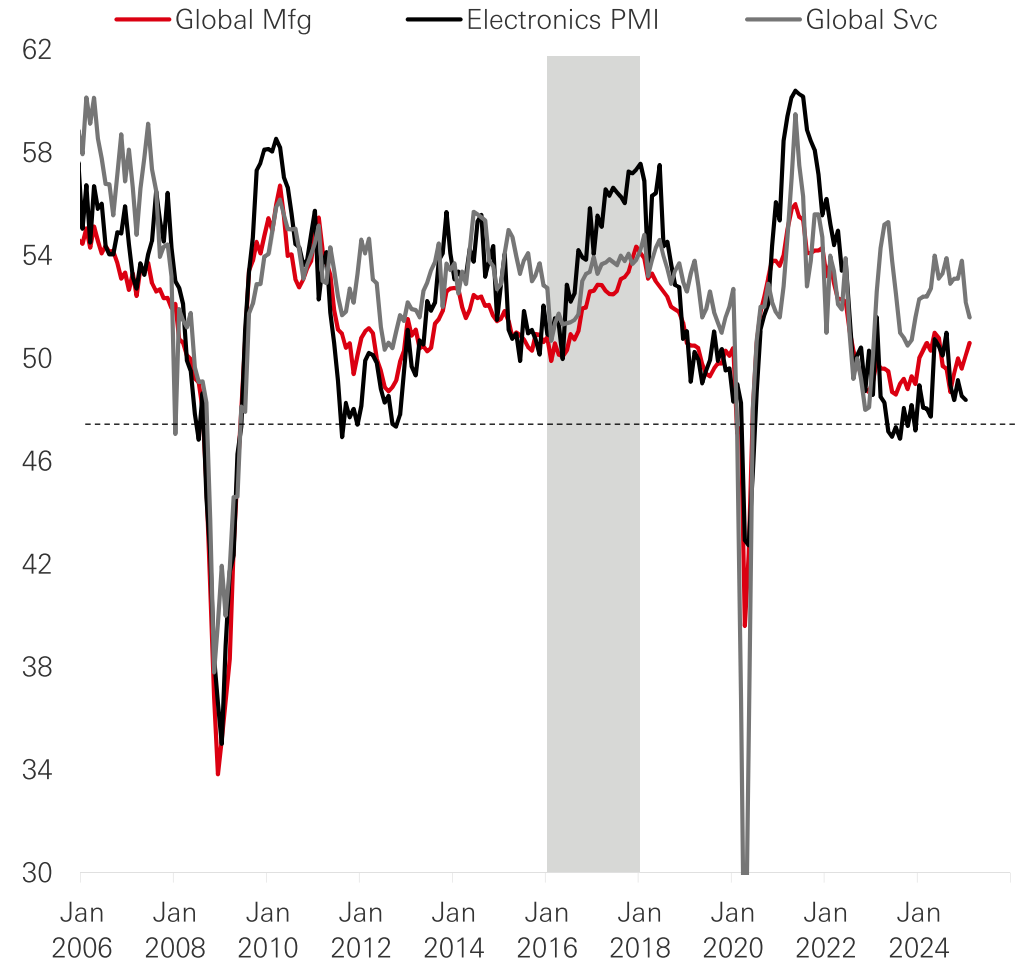
# Trump 2.0 – more of the same, or changing tack?

Comparisons with the 2016 USD election

## EURUSD: 2016 election versus 2024 election



## Will the post 2016 rise in PMI indicators repeat?

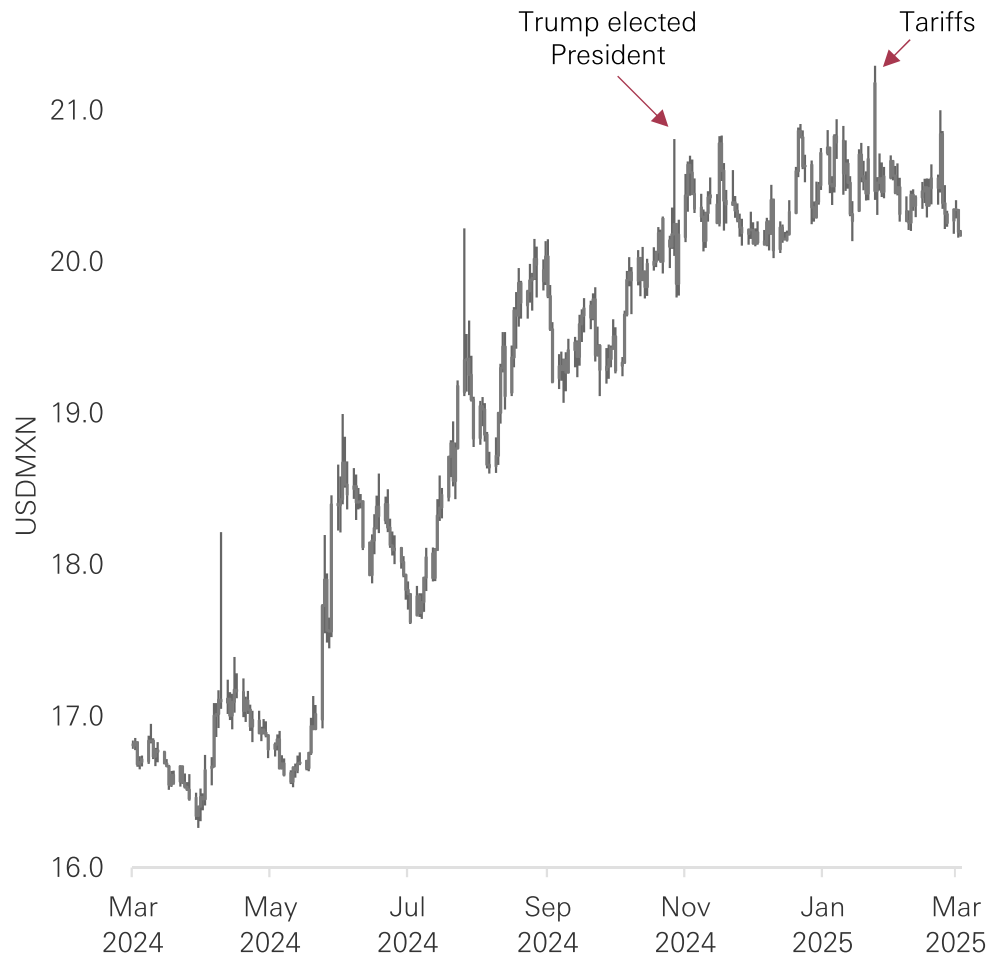


Source: Left chart, HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025. Right chart, HSBC Research as of 14<sup>th</sup> March 2025.

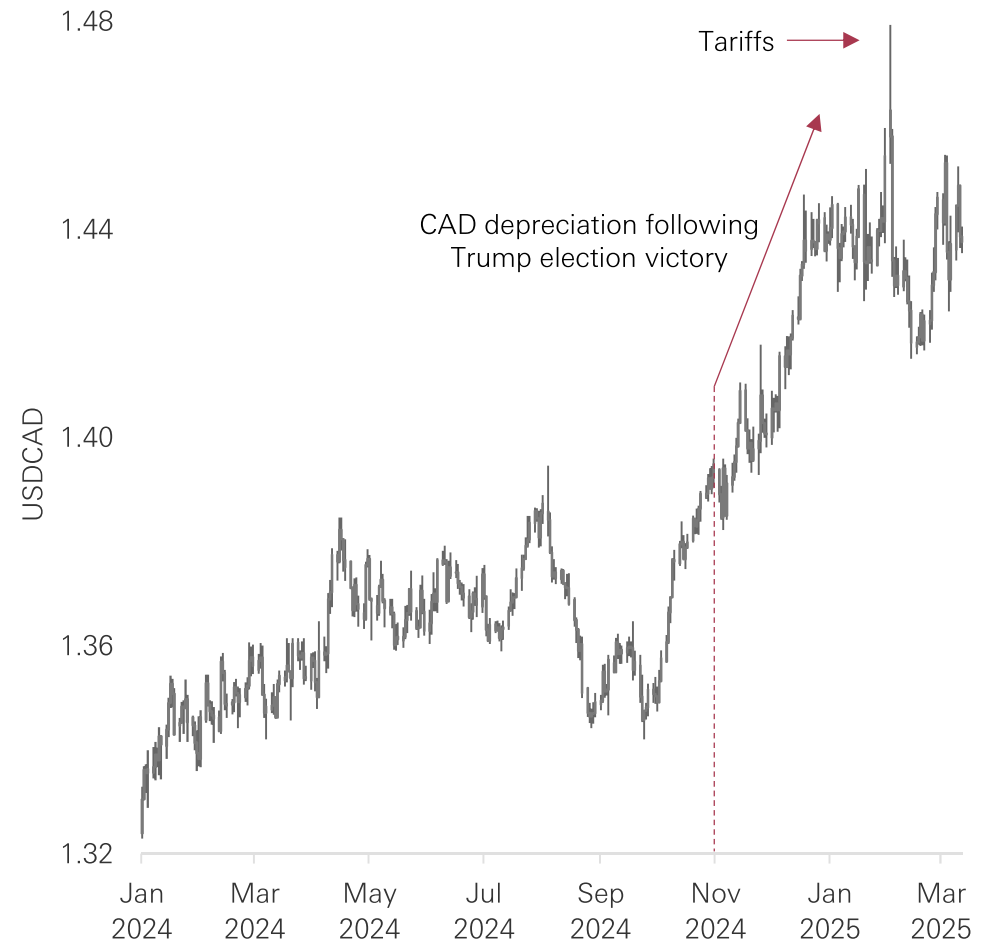
# Market impact of tariffs

Tariffs targeting Mexico and Canada led to increased intraday volatility

### USDMXN: Intraday volatility due to election and tariffs



### USDCAD: CAD depreciation following election

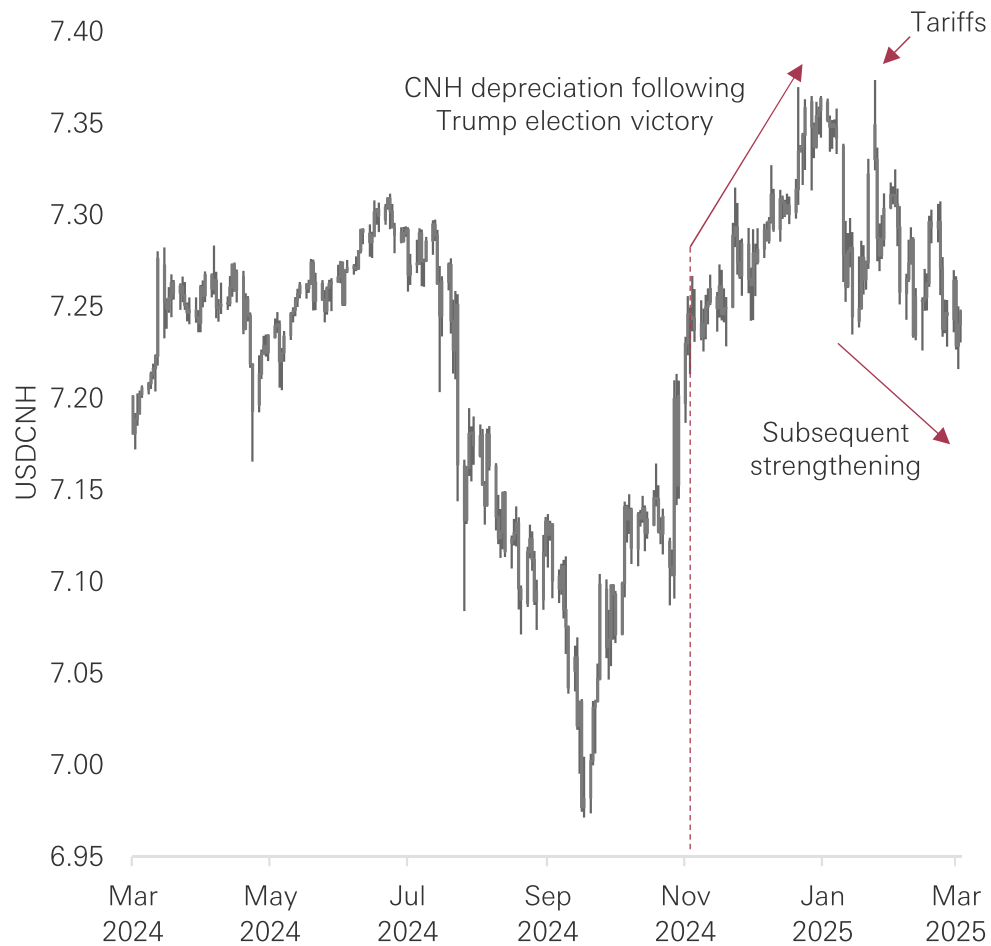


Source: HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025.

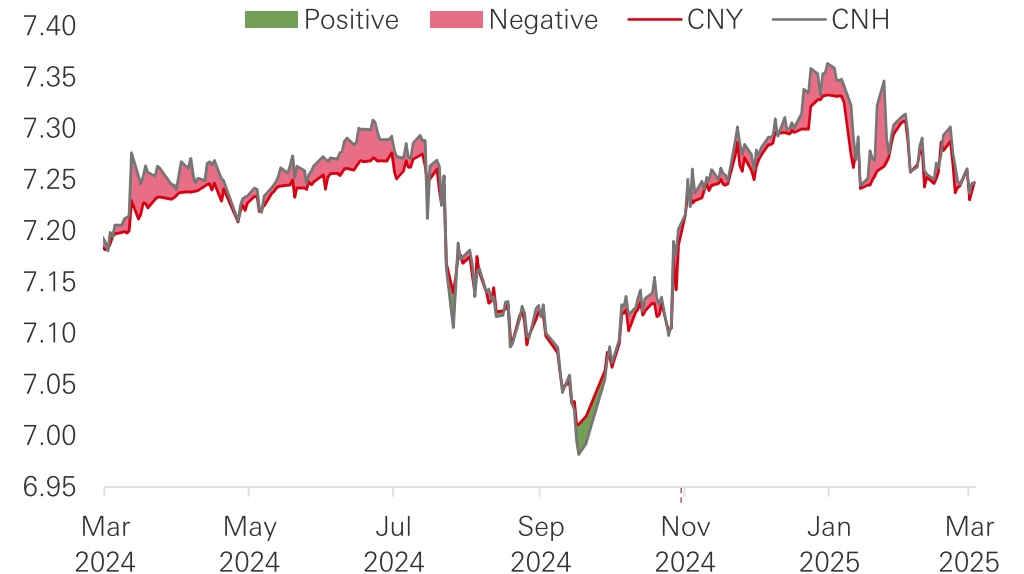
# Market impact of tariffs: China in focus

Also targeted by tariffs, leading to RMB depreciation and increase in CNY/CNH basis

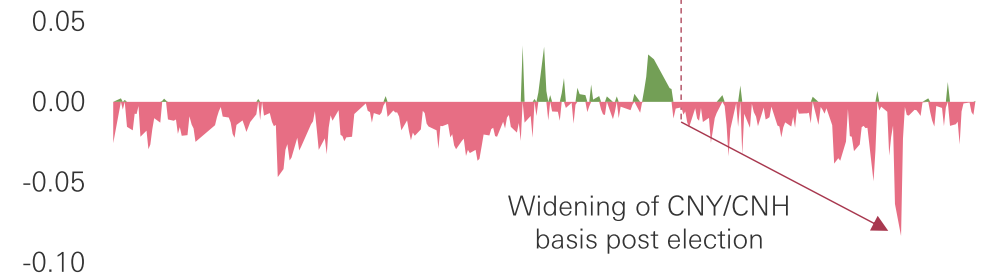
## USDCNH: depreciation into and following election



## CNY/CNH basis widened following election



## USDCNY less USDCNH



# From US exceptionalism... to potential recession?

HSBC Research recently revised EURUSD forecasts higher

## EURUSD: trading between 1.0200 – 1.1274 from Dec '22



## HSBC Forecasts & Consensus as of 11<sup>th</sup> March

	Q2 25	Q3 25	Q4 25
<b>HSBC</b>	<b>1.08</b>	<b>1.06</b>	<b>1.04</b>
Median	1.04	1.04	1.06
Mean	1.04	1.04	1.05
<b>High</b>	<b>1.12</b>	<b>1.14</b>	<b>1.15</b>
<b>Low</b>	<b>0.98</b>	<b>0.96</b>	<b>0.98</b>

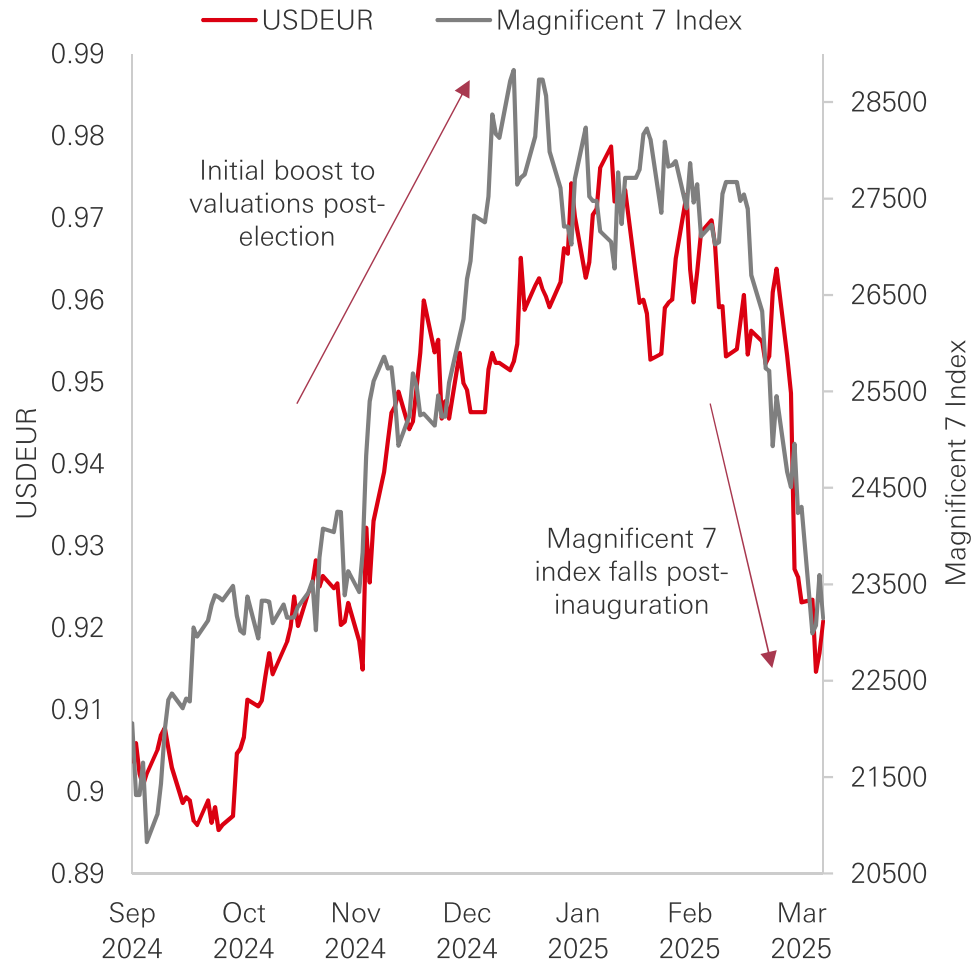
Source: HSBC Research

Source: Left chart, HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025. Right table, HSBC Research as of 11<sup>th</sup> March 2025 - 43 contributors to EURUSD forecasting data.

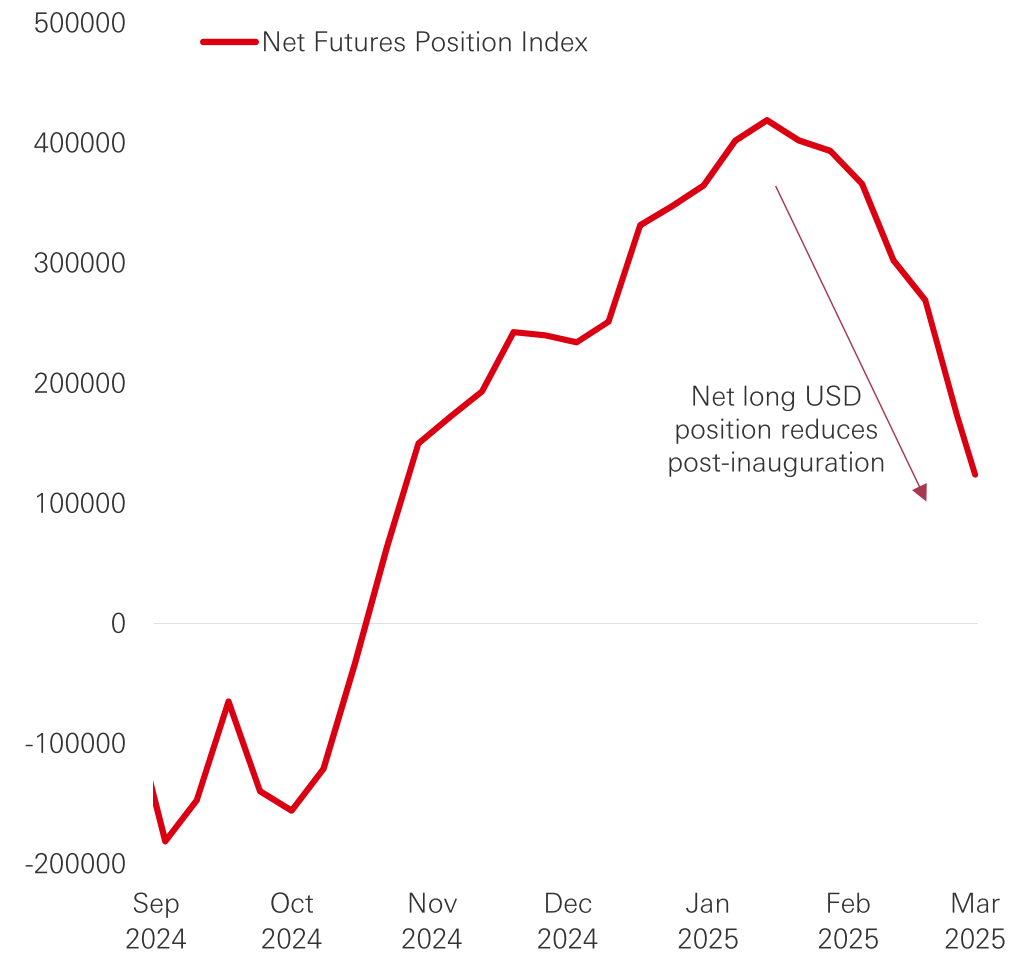
# From US exceptionalism... to potential recession?

Similar trends in US Equities and USD futures positioning post election

### Magnificent 7 following value of USD



### Futures positioning: positive shows long USD positions

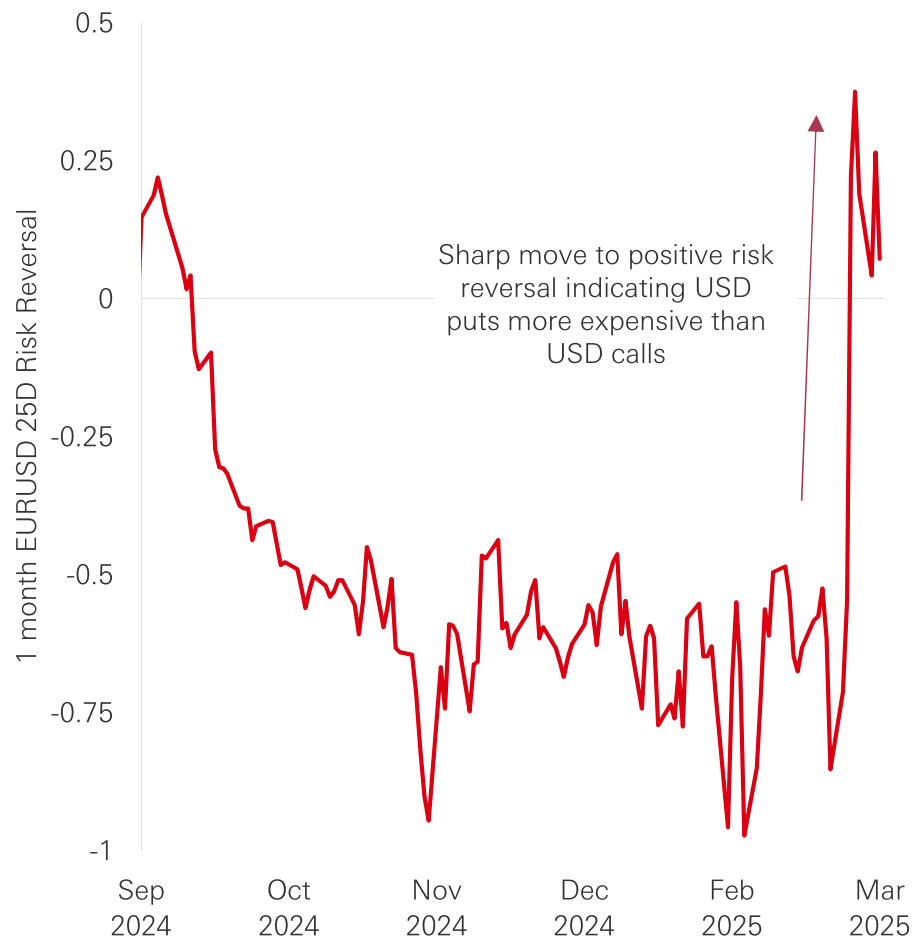


Source: HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025. Net futures positions are considered against EUR, JPY, AUD, NZD, GBP, CAD, MXN and CHF

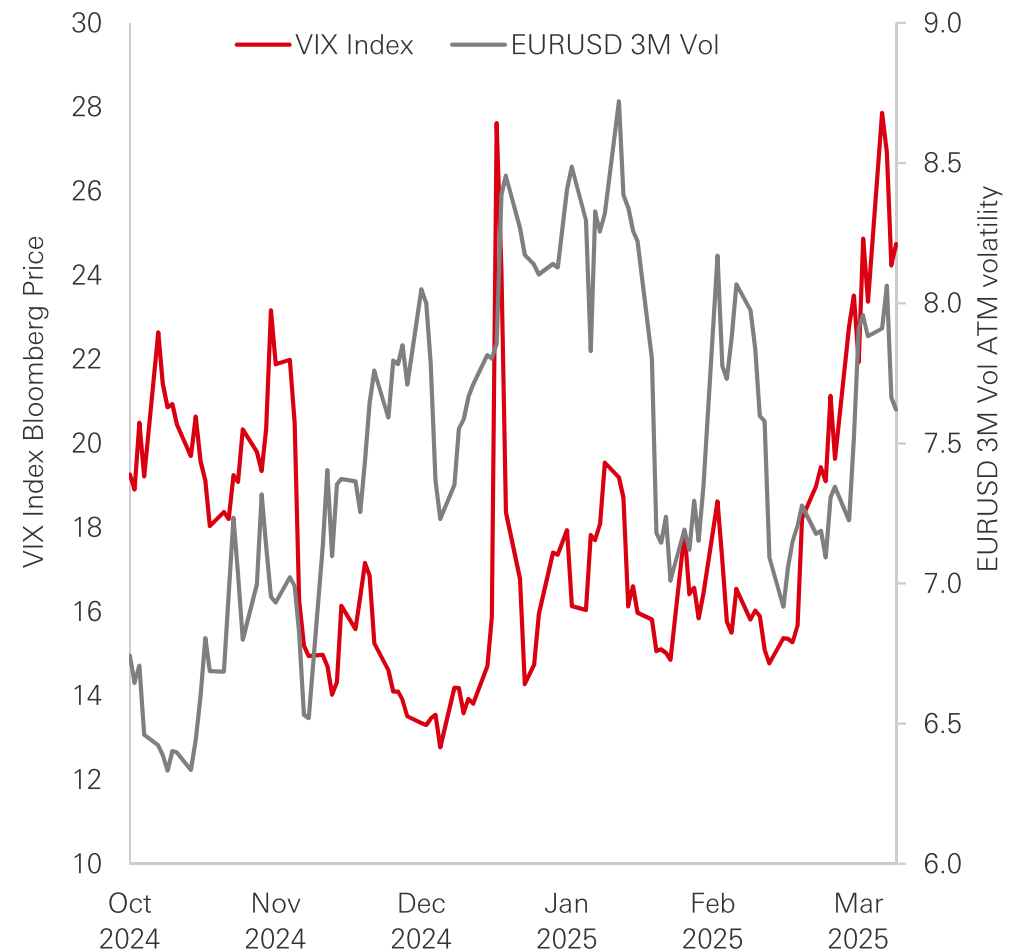
# From US exceptionalism... to potential recession?

The outlook from market participants: uncertainty with a skew towards USD weakness

### EURUSD risk reversal: expectation of USD weakness?



### Uncertainty remains high - VIX and EURUSD volatility



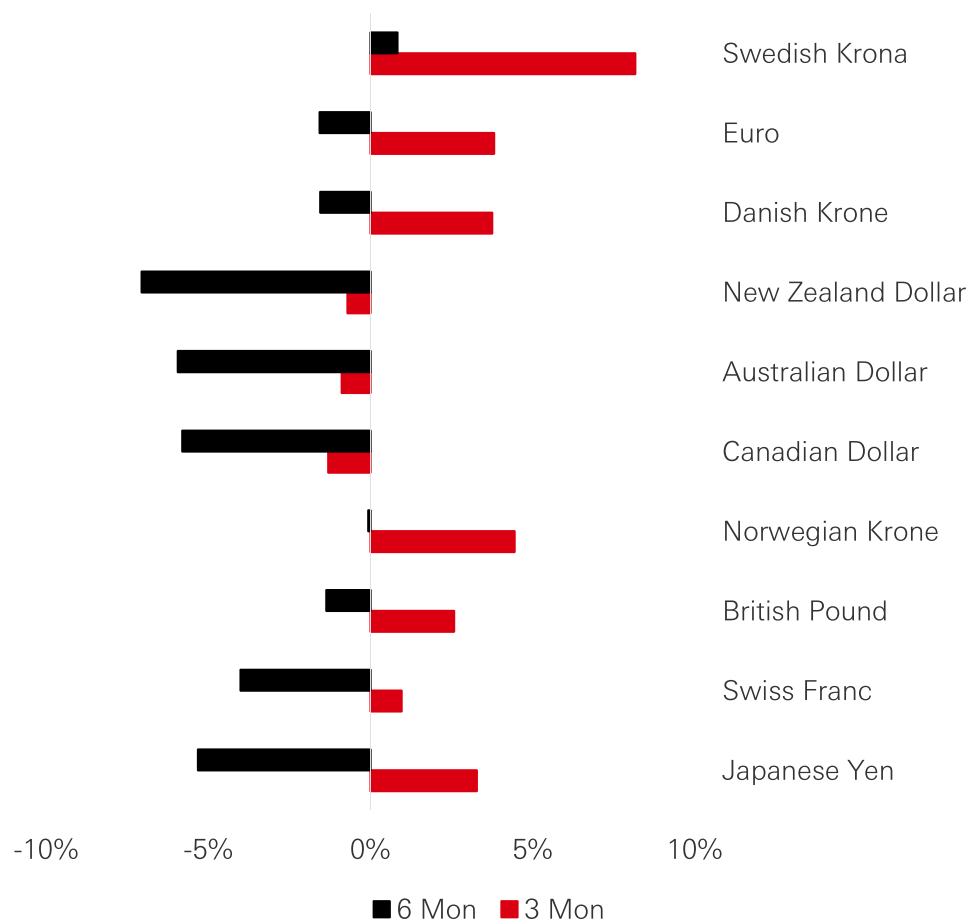
Source: HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025.



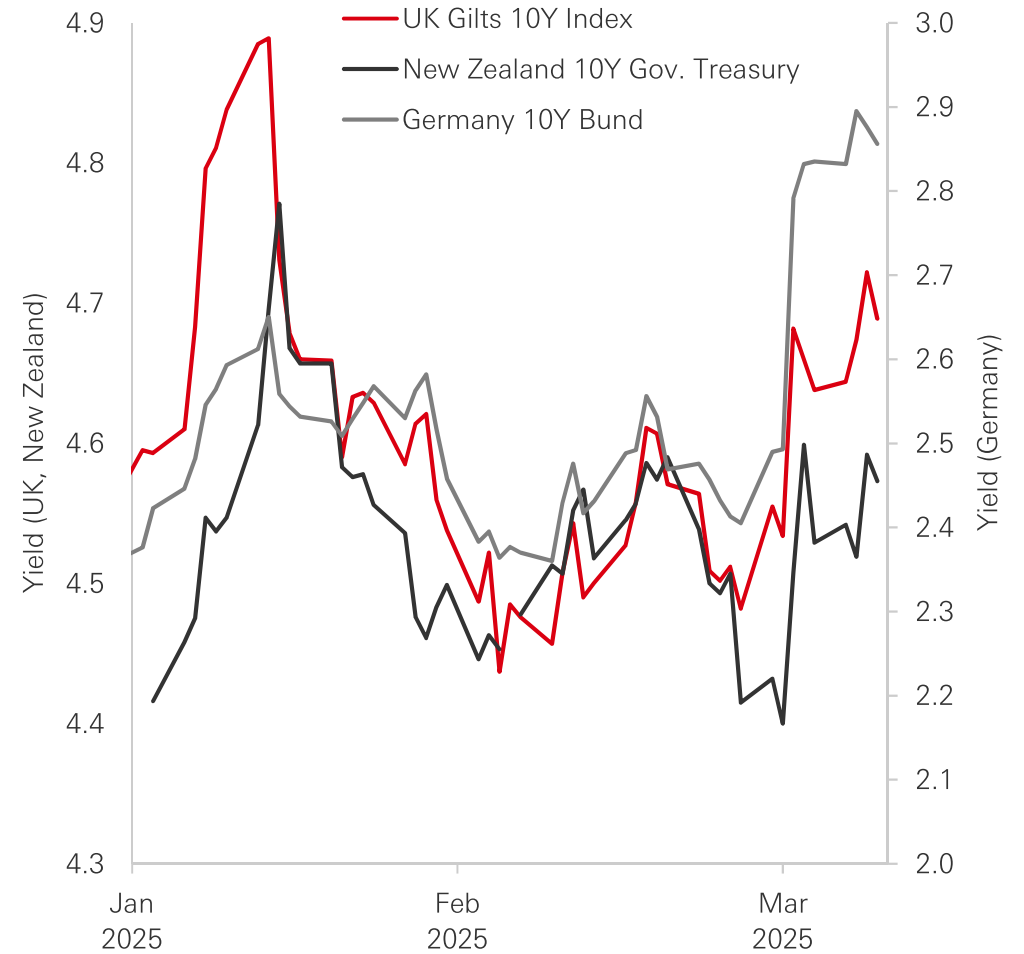
# G10 FX Performance

Rising government bond yields a potential driver

G10 Performance vs USD over 3m and 6m...



...with recent yield differential being a potential driver

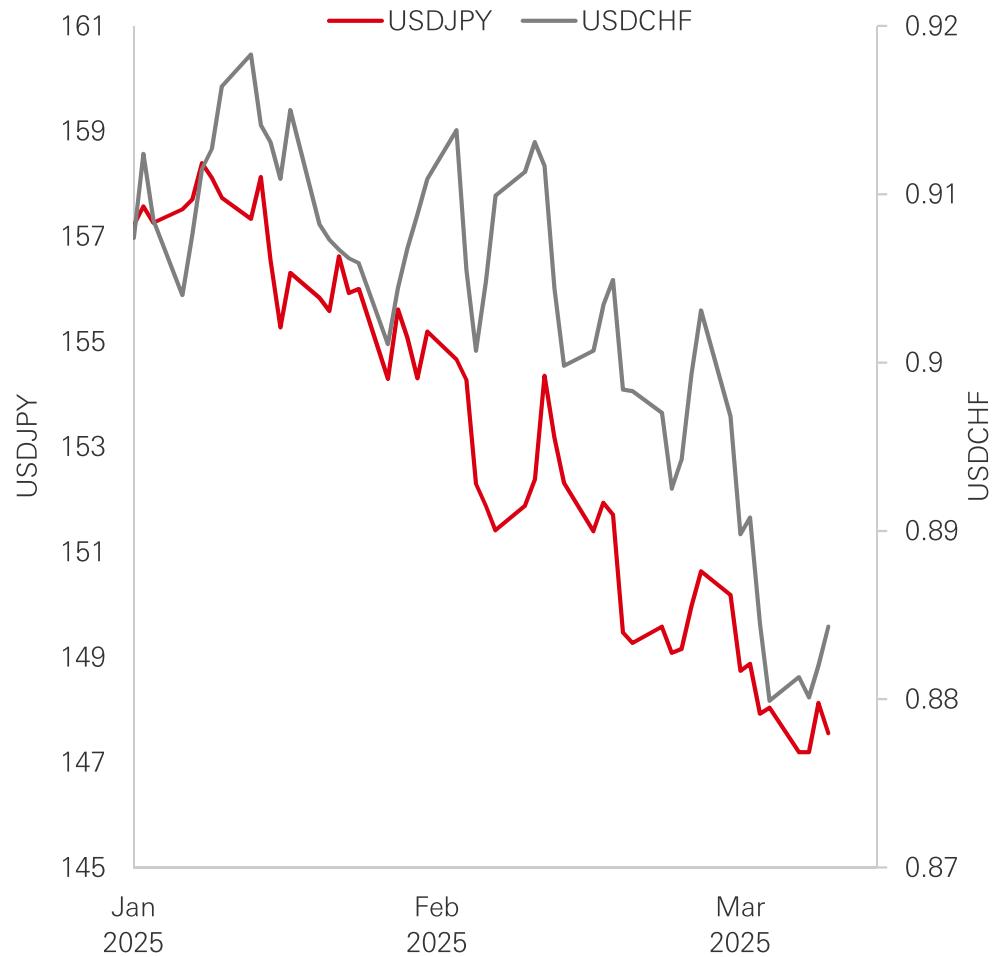


Source: HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025.

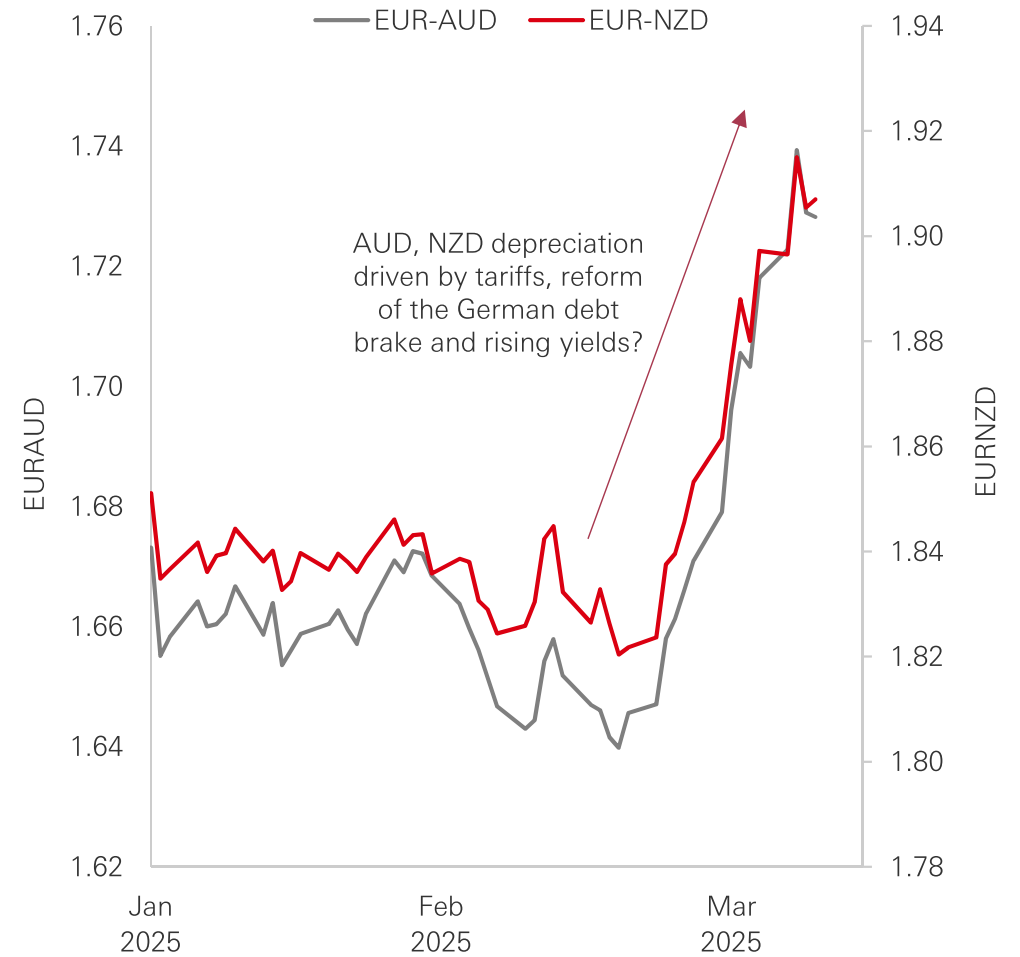
# G10 FX Performance

A divergence between safe haven and tariff-impacted currencies?

Safe haven? CHF and JPY have appreciated in 2025...



...with NZD and AUD under pressure versus EUR

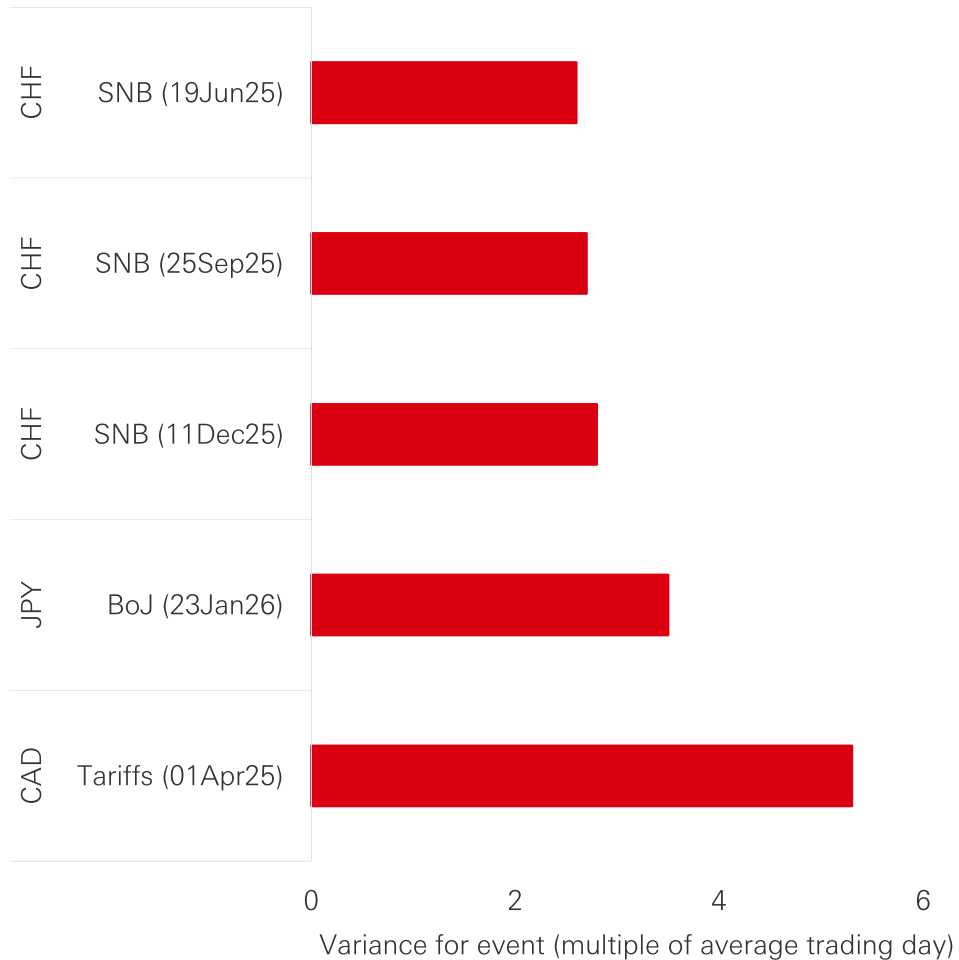


Source: HSBC analysis, Bloomberg data as of 14<sup>th</sup> March 2025.

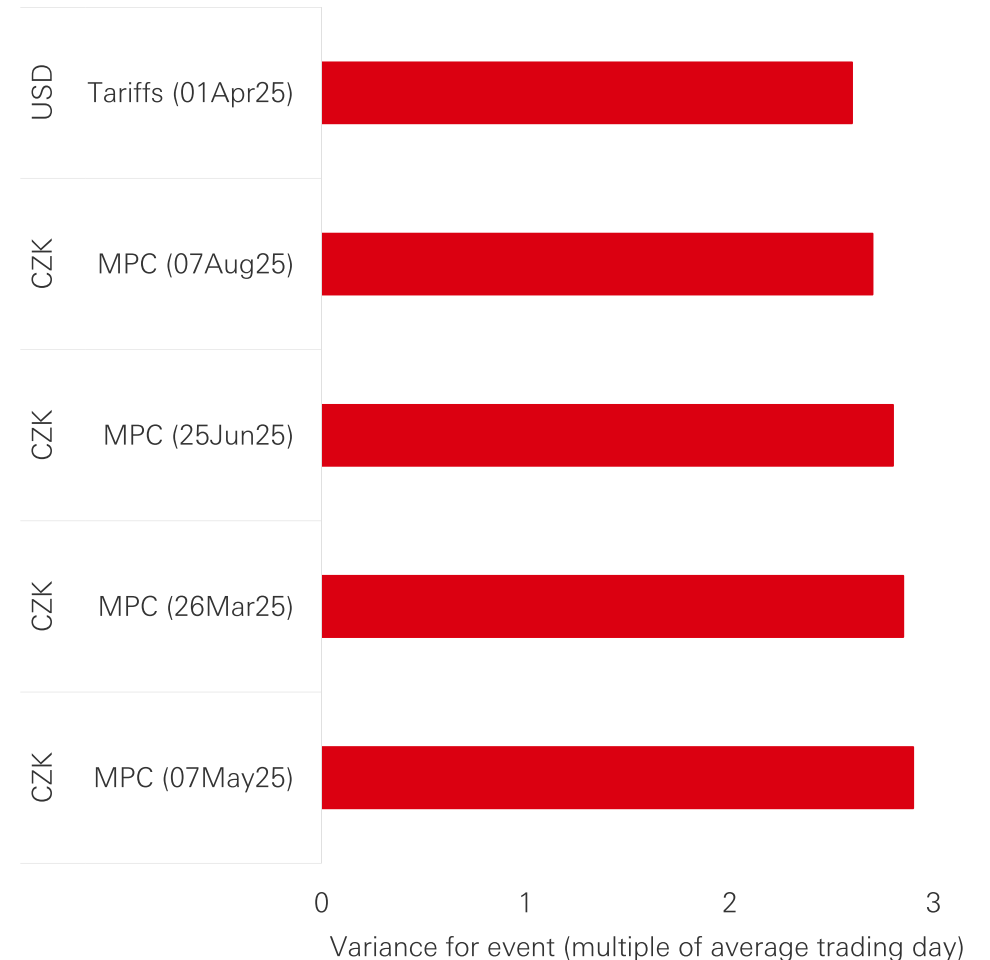
# Insights from FX volatility markets

Upcoming risk events and their weighting relative to an average trading day

**G10 events: implied variance relative to an average day**



**EM events: implied variance relative to an average day**



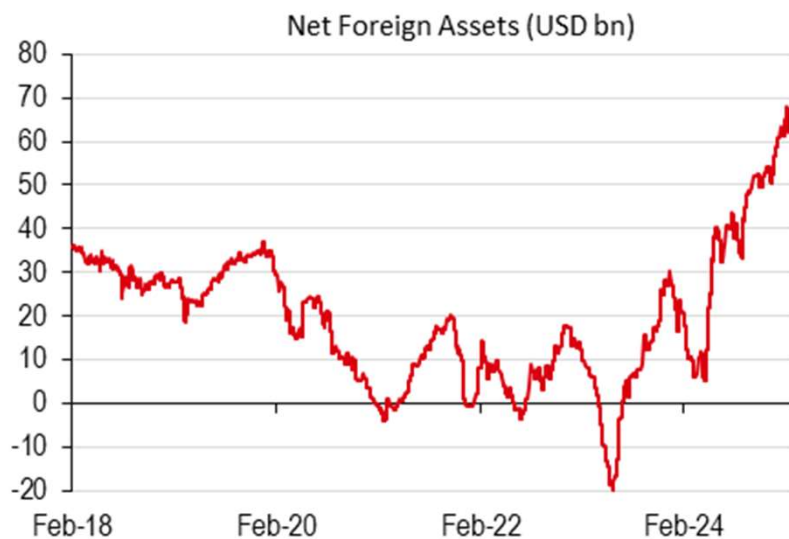
Source: HSBC analysis, HSBC data as of 13<sup>th</sup> March 2025.

# TRY: New risks ahead?

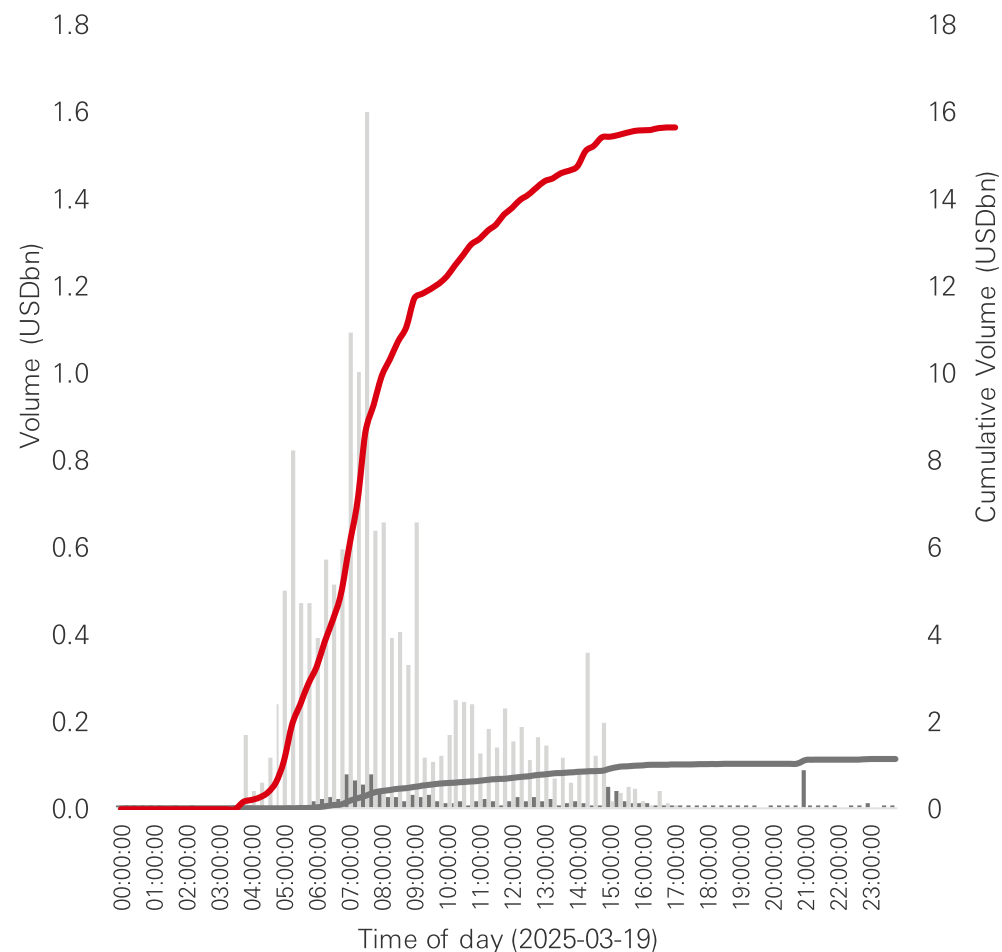
Emergence of political risks has triggered a sharp intra-day TRY move

## HSBC Research view: The dollarisation risk

“Türkiye’s FX reserves position is much stronger than two years ago and the central bank can face episodes of higher foreign currency demand. However, the panorama has become more challenging and residents’ demand for FX may become more persistent in the upcoming period. In other words, we believe the re-dollarisation risk has now increased.”



## USDTRY Volume Profile for 19<sup>th</sup> March 2025

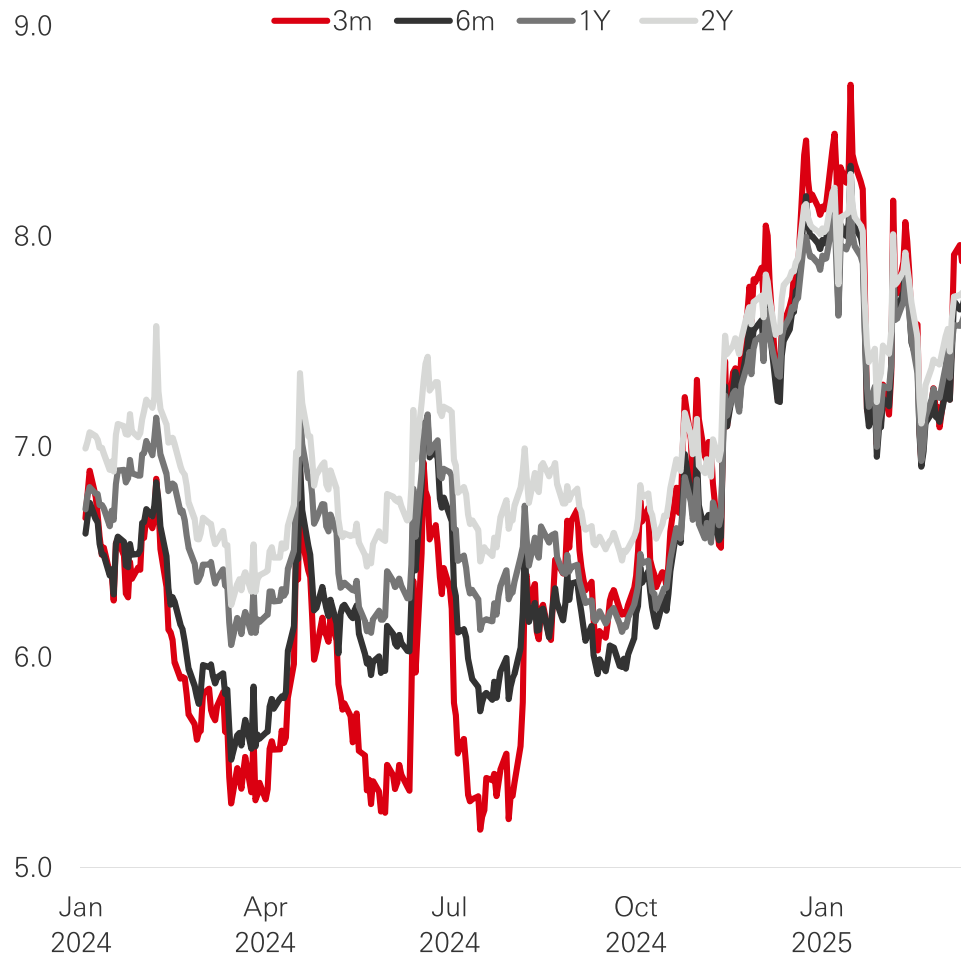


Source: Left text, chart HSBC Research. Right chart, HSBC eRisk as of 17:00 London time, 19<sup>th</sup> March 2025.

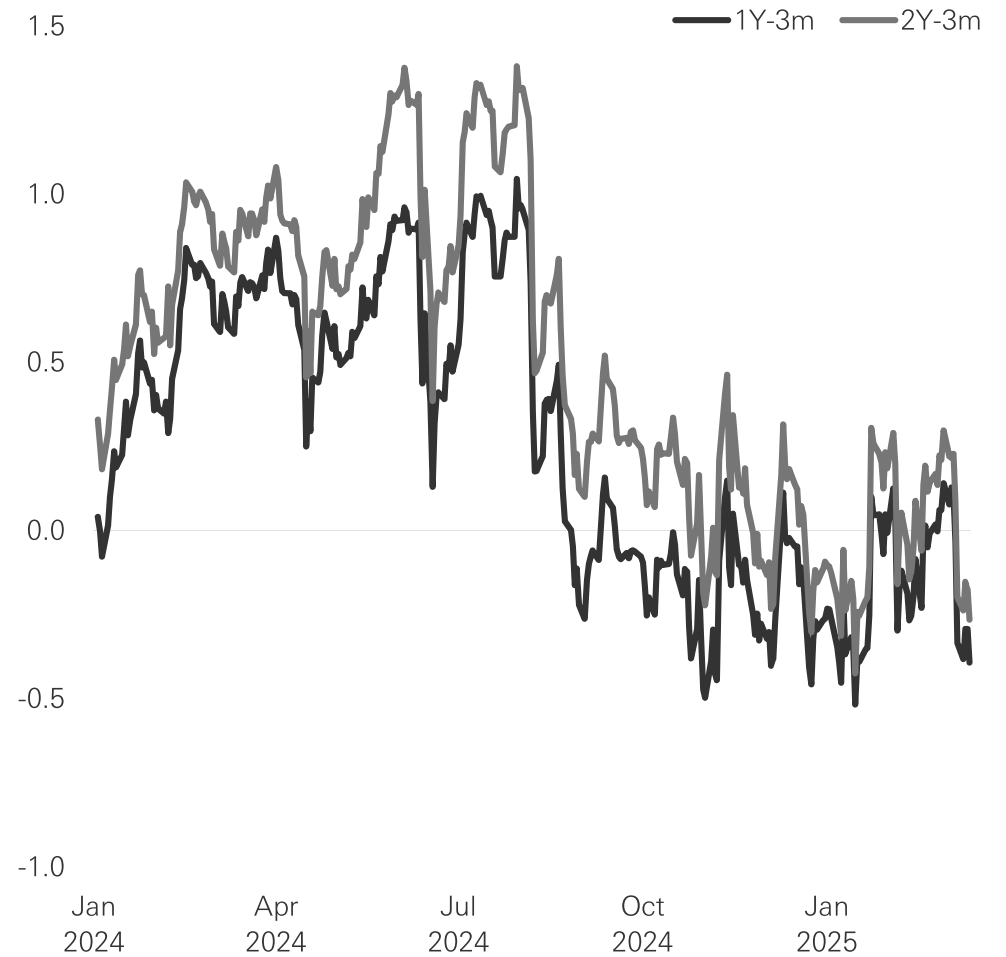
# Insights from FX volatility markets

Upcoming tariffs? Spot moves implied by forward volatility for 2<sup>nd</sup> April 2025

EURUSD volatility shows uncertainty has increased...



...with 3m uncertainty rising towards 1y and 2y levels

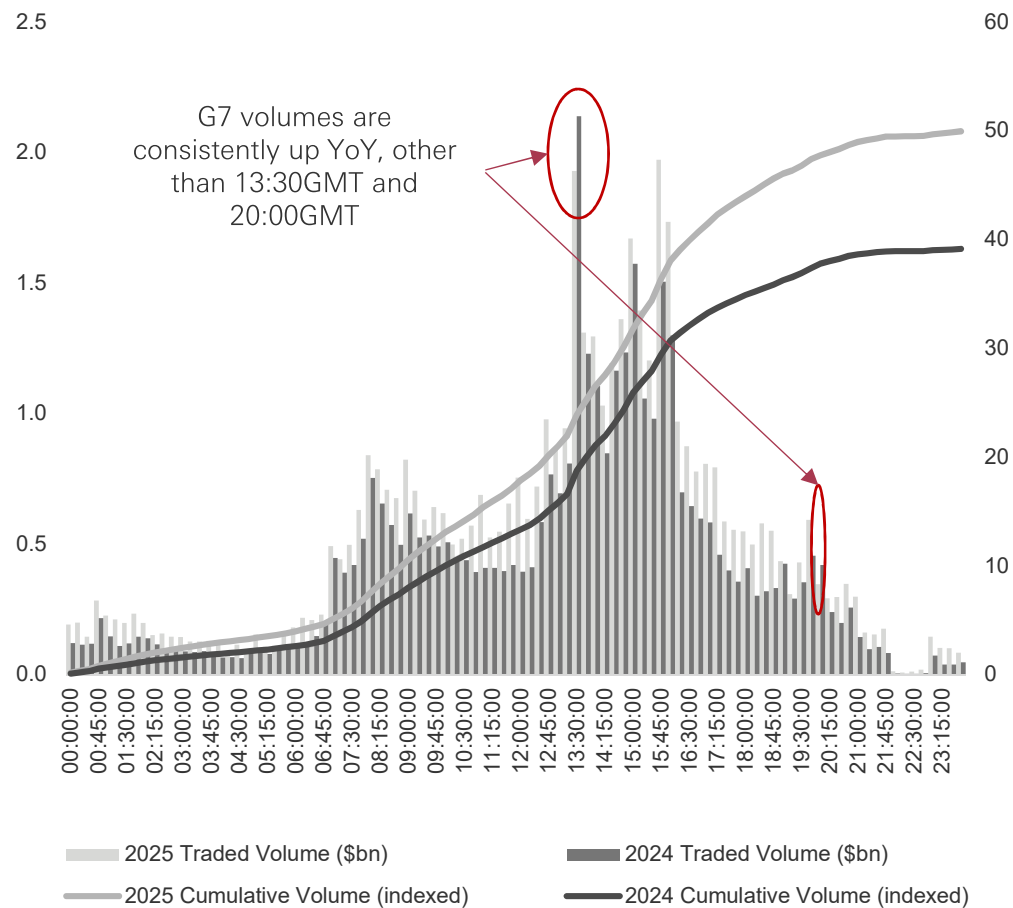


Source: HSBC analysis, HSBC data as of 13<sup>th</sup> March 2025.

# FX Spot Market Structure Developments

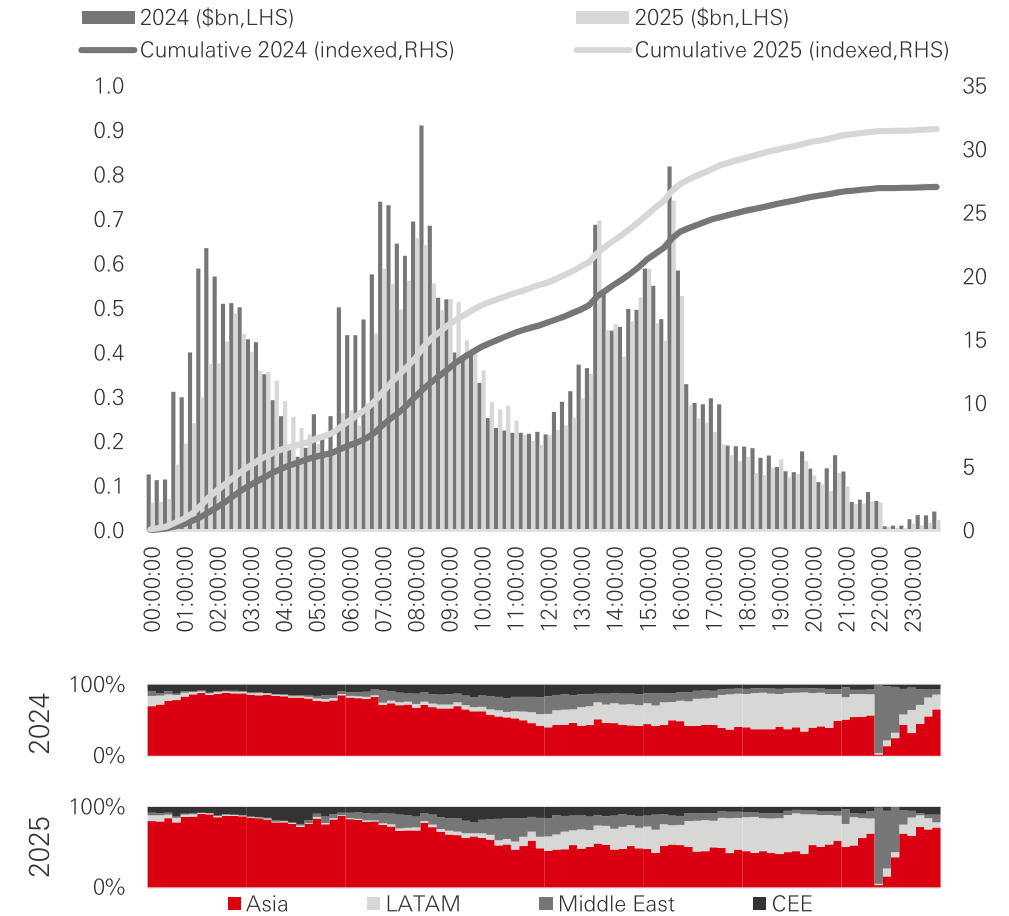
Increase in G7 volumes observed, with a decline in EM volumes

## G7 Volume Profile (2024 & 2025)



## EM Volume Profile (2024 & 2025)

USD versus: THB, ILS, SGD, CNH, HKD, MXN, ZAR, TRY  
 EUR versus: PLN, HUF, RON, CZK



Source: HSBC analysis, HSBC data as of 14<sup>th</sup> March 2025.

2025: 1st Jan 2025 – 20th March 2025

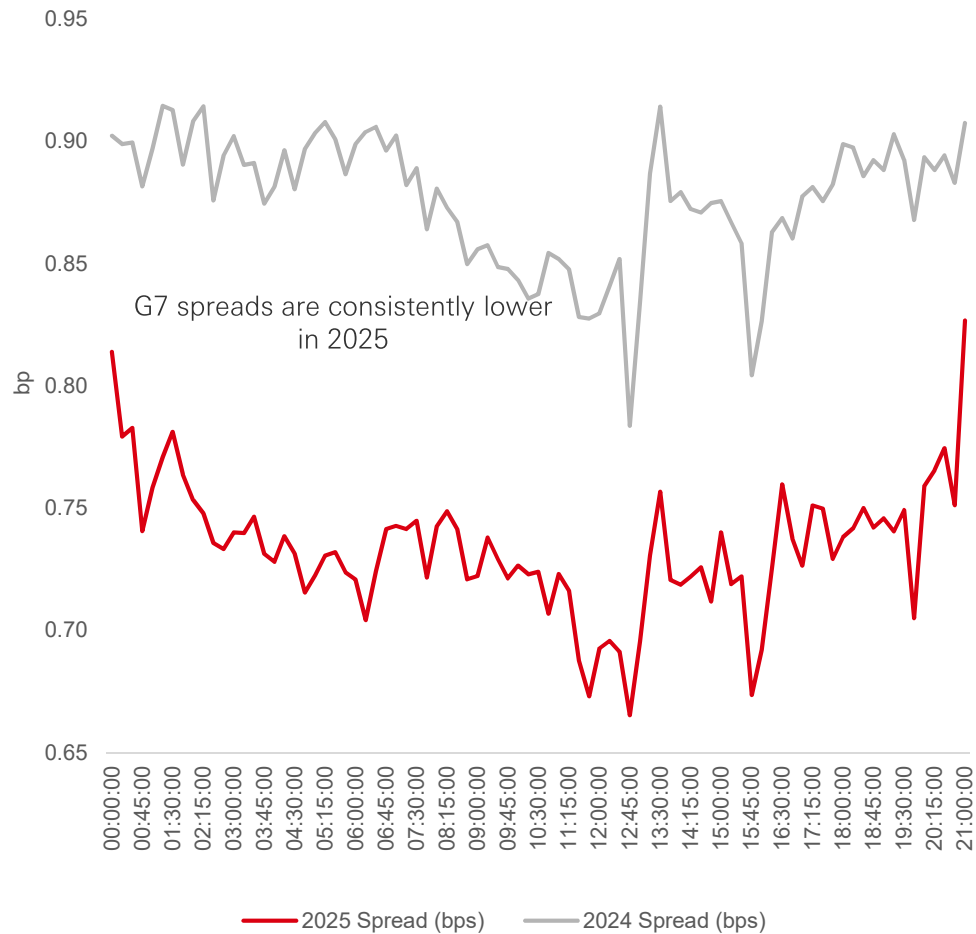
2024: 1st Jan 2024 – 31st December 2024

This information is for the interbank market only i.e primary and secondary venues

# FX Spot Market Structure Developments

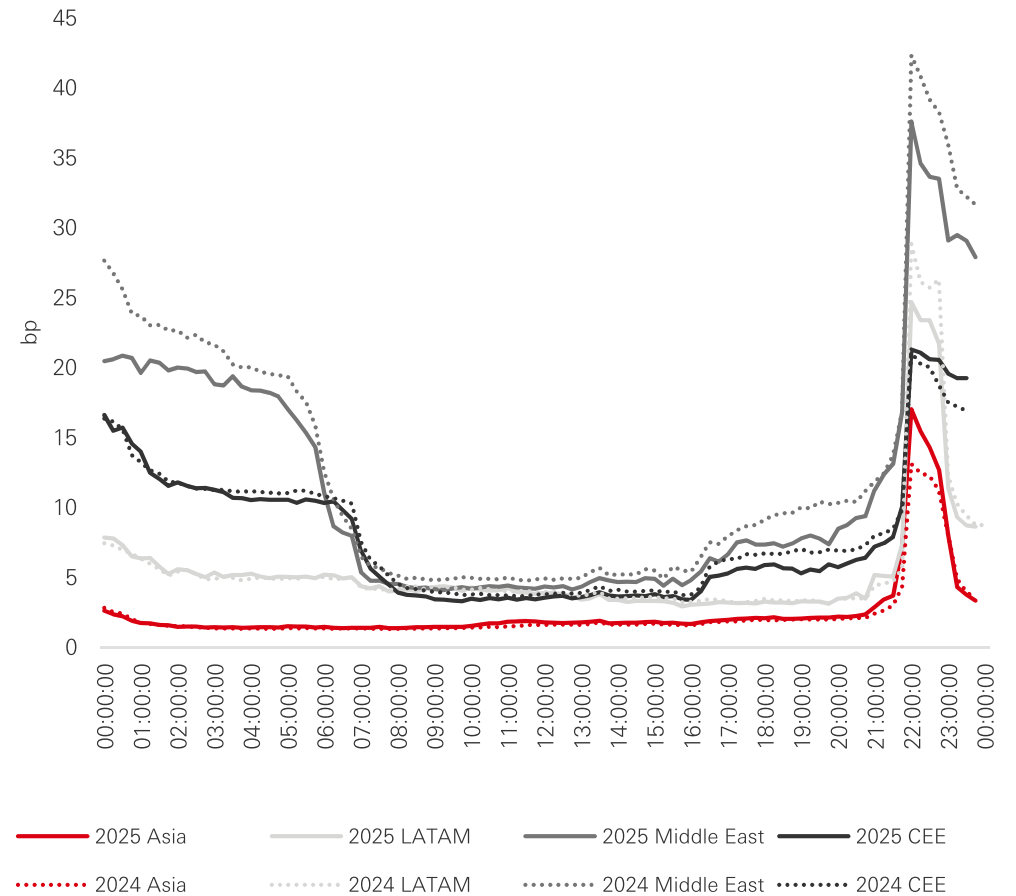
## FX Spot market structure developments

### G7 spreads have compressed versus the 2024 average



### EM spreads generally lower

USD versus: THB, ILS, SGD, CNH, HKD, MXN, ZAR, TRY  
EUR versus: PLN, HUF, RON, CZK



Source: HSBC analysis, HSBC data as of 14<sup>th</sup> March 2025.

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# Review of recent developments in Precious Metal markets

*ECB FX Contact Group - Frankfurt, 26/03/2025*

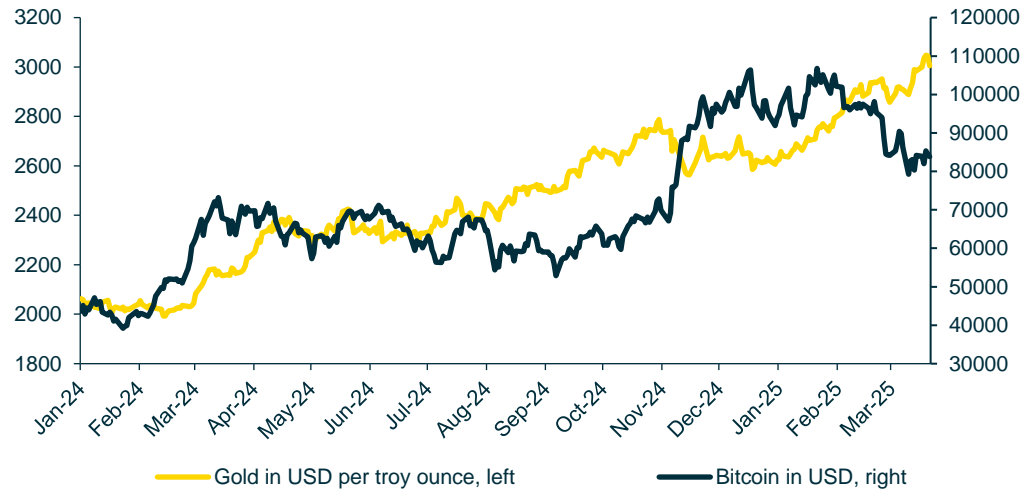
Hinrich W. Paul – Global Head of Financial Markets

# Gold future on Comex traded significantly above spot price



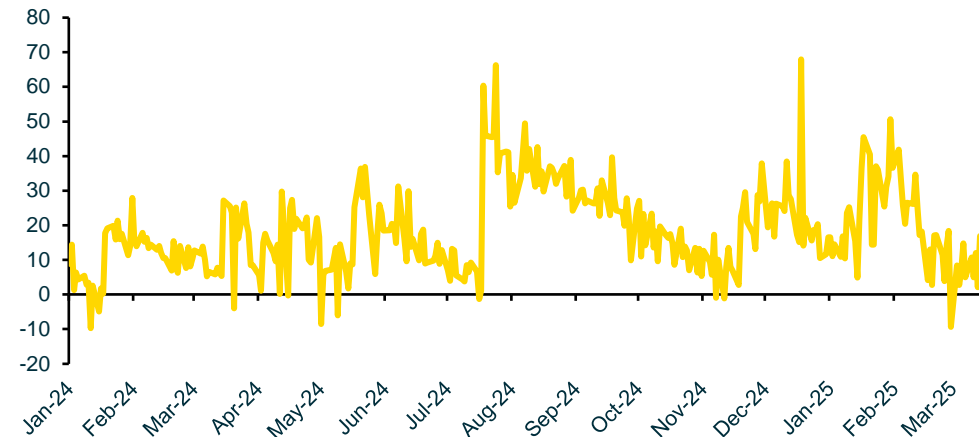
## Gold Spot XAU and Bitcoin

(Gold in USD per troy ounce, left; Bitcoin in USD, right)



## Exchange for physical spread

(in USD per troy ounce)



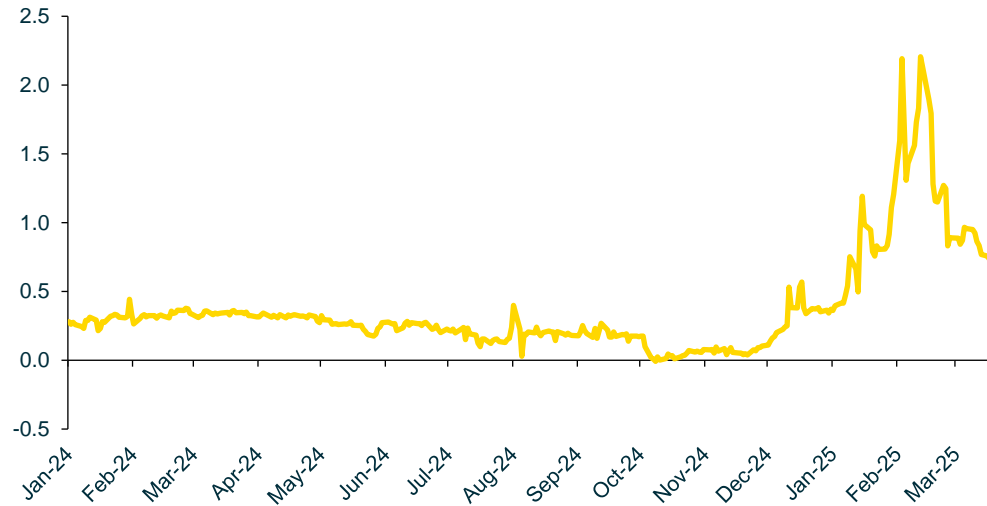
- Gold performance on the back of falling interest rates, central banks diversifying away from USD as reserve currencies (e.g. China, India, Turkey), rising retail interest via ETCs and lately also driven by risk-off sentiment following tariff policies of the new US administration. Bitcoin rallied after the inauguration of the new US president.
- Exchange for physical: Large spike in 2020 as no delivery possible into the US and production in European refiners was halted because of Corona lockdowns (CME and London vaults require different bar specifications). Banks' position in EFP substantially larger before Covid spike, with some banks shutting down their PM desks, as a result closing out their positions and aggravating market moves. In comparison 2024 and 2025 moves were much more limited and market reactions more controlled.

Sources: Bloomberg, Commerzbank Research, as of 18<sup>th</sup> March

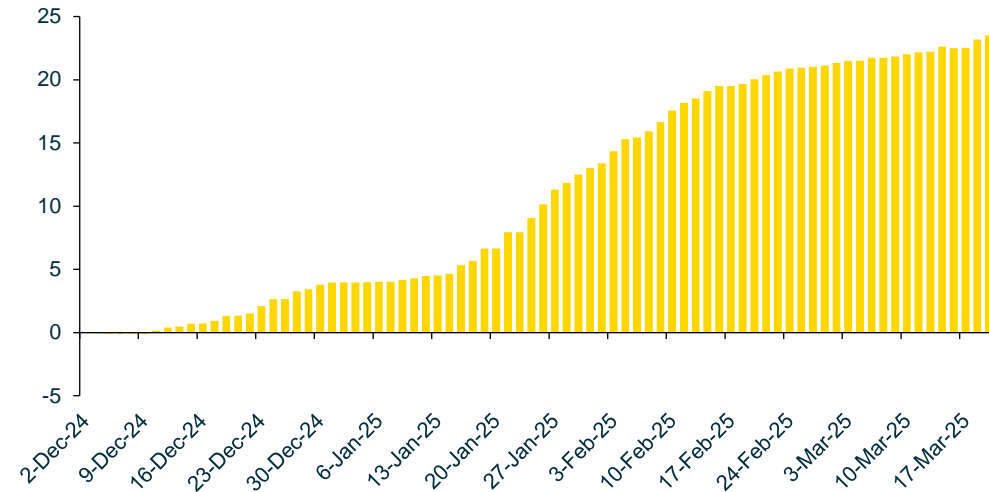
# Resulting in higher gold lease rates and sharply rising Comex gold inventories



Lease rates 6 months  
(Percent)



Changes in Comex inventories  
(cumulated since Dec 2, 2024, in million ounces)



- London lease rates increased because of shift from unallocated gold into allocated gold after reducing EFP position or from arbitrage trades shipping refined bars into Comex warehouse closing the EFP spread
- As a consequence, Comex inventories were rising (Comex gold stocks rose by almost 15 million ounces between mid-January and mid-February) closing future short positions and respective EFP positions overall. Gold shipments from Switzerland to the US rose to almost 200 tons in February.
- Silver, Palladium and Platinum were impacted in a similar fashion – even though arbitrage via shipment has been operationally easier for gold
- The situation seems to calm down since late February with the EFP spread narrowing, lease rates easing and Comex inventories stabilizing



## Open questions FX (HSBC)

1. **Could the long-term impact of tariffs lead to inflation, weakening of the USD and questioning of the USD being a “reserve currency”?**
2. **What are the potential implications of a Ukraine-Russia peace deal and the German fiscal expansion on FX markets?**
3. **What’s the view of the Group on Trump championing “crypto” as the strategic reserve in the US? What might the potential repercussions be on the FX market or safe haven commodities?**
4. **What are the major event risks over the next six months?**

## Open questions Precious Metals (Commerzbank)

5. **How will the Exchange for Physical spread react to potential future universal tariffs under the new US administration?**
6. **How have market participants changed their hedging strategy following Exchange for Physical widening?**
7. **Is there any viable alternative to CME futures for European PM markets?**



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