

GLOBAL FOREIGN EXCHANGE COMMITTEE

SUMMARY OF MARKET CONDITIONS IN GFXC MEMBER COMMITTEES

MATERIAL FOR 8 DECEMBER 2020 GFXC MEETING



AUSTRALIAN FOREIGN EXCHANGE COMMITTEE

Since September, both volatility and liquidity conditions in foreign exchange markets – including for the Australian dollar – have remained relatively normal. For the AUD, gauges of market liquidity (such as bid-offer spreads, impact of large-sized trades, volatility-to-volume measures) remain well below the extremes observed in the first half of 2020. Liquidity conditions deteriorated modestly in the week of the US Presidential election, but there appeared to be little lasting impact from the event. On average, the bid-ask spread in primary venues for AUD/USD is around 1.0-1.5 pips (and was around 1.2-1.7 pips during the week of the Presidential election).

There was a modest deterioration in liquidity around November month-end, exacerbated by the Thanksgiving holiday in the US. This saw bid-offer spreads around 1.5 times wider and reduced volumes traded.

Like conditions in the spot market for AUD, liquidity in the AUD forwards has recovered from the marked deterioration during March. Bid-offer spreads are extremely narrow across the entire curve, and transactions are able to be conducted in reasonable parcel sizes in either direction (A\$500m-A\$1,000m transactions can be conducted with little price impact). Participants expect the AUD forward market to be relatively insulated from end-of year turn effects when compared against other major currencies such as EUR and YEN. There has been a structural shift in the pricing of AUD in the forward market, with the basis against USD moving negative for shorter maturities.

AFXC

Update on the Canadian Dollar

The Canadian dollar has appreciated about 3 ½ per cent versus the US dollar since the last GFEC meeting, reaching the highest level of the year. Against a basket of major currencies excluding the US dollar, the CAD has depreciated about 1 per cent.

The Canadian dollar's movement has been tied more closely to the broader risk sentiment. The correlation to the S&P 500 index was about 75 per cent at the end of November. The recovery in oil and natural gas prices has also supported the Canadian dollar. The correlation with interest rate differentials has fallen sizably over the period.

After moving higher in October, CAD implied volatility has declined, but remains above pre-pandemic levels.

Trading volumes have recently picked up as USDCAD fell below 1.30. Top of book bid-offer spreads for spot transactions have returned to pre-pandemic levels (about .5 pips). Bid-offer spreads in **USDCAD** forwards also remain relatively tight, about .1 pip for tenors under a week, and .3 pips for the 3-month tenors.

Market Conditions Update from the China FX Committee

I. China's FX Market Remains Sound Since September.

1. Trading remains active in China's FX market and liquidity conditions stay sound.

Since September, trading in China's interbank FX market has been active, with an average daily turnover over 110 billion USD, exceeding the level of the same period last year. USD/CNY spot and swap spreads have both stabilized at normal levels.

2. Flexibility of the RMB exchange rate has increased, and market participants' expectations remain stable.

The RMB appreciation since September has been mainly supported by economic fundamentals. Being one of the first to keep COVID-19 under control, China's economic and social development has recovered quickly. According to the IMF, China is expected to be the only major economy projected to achieve growth in 2020. With promising export numbers, long-term funds overseas have increased their RMB assets, which has supported demand and drove RMB appreciation. The USD/CNY central parity rate was 6.5782 on November 30, an appreciation of 5.5% from the beginning of 2020. The CFETS RMB Index, which measures the RMB against a basket of currencies, was 95.59 on November 27, a slight appreciation from the start of 2020.

USD/CNY spot has traded with greater intraday volatility since September. Since the start of this year, the RMB exchange rate has featured two-way fluctuations with increased flexibility. The RMB appreciated 4.5% against the USD while the U.S. Dollar Index fell by 4.3%, so its appreciation has been relatively moderate, and its performance sound among major currencies.

Market participants' exchange rate expectations remain stable. USD/CNY's 1Y 25 delta risk reversal traded at an average of 0.97 since October, reflecting neutral market expectations.

3. USD/CNY volatility increased as the U.S. election day approached and then came down after.

In early September, the implied volatility of 1M USD/CNY options was about 4.4%. It rose to 7.2% at the end of October due to concerns around

the uncertainty of the U.S. presidential election and fell quickly after the results became clear.

II. Cross-Border Capital Flows Remain Stable and Orderly.

Since 2020, China's cross-border capital flows have remained generally stable, with the international balance of payments maintained basic equilibrium. Since Q3, driven by the steady recovery of China's economy and the two-way opening of the financial sector, the two-way cross-border capital flows have become more active. Q3 continued to witness the current account and capital account surplus, with net inflows of cross-border capital. From January to September, foreign investors increased their holdings of Chinese bonds and stocks by 132.1 billion USD, an increase of 47%.

III. Issues to Monitor and Relevant Recommendations

1. COVID-19 developments. Since September, Europe and the U.S. have seen a second wave of COVID-19, and concerns about the pandemic and possible response measures may cause further fluctuations in the FX market. As the Christmas and New Year holidays approach, liquidity may be tight, coupled with possible lockdowns, market participants are closely watching the FX market, especially the liquidity conditions. Another focus is COVID-19 vaccines. Progress on effective and safe vaccines as well as immunization of large-scale populations is expected to increase the overall risk appetite of the market and further weaken the USD.

2. U.S. presidential transition. Markets will watch President-elect Joe Biden's statements on future policies, especially on the pandemic response, fiscal policies and China-US relations.

3. Relevant recommendations. Members reiterated the importance of having sound business continuity plans in place to guard against trading disruptions. Market participants are also recommended to keep in close contact with clients on trading arrangements considering potential low liquidity caused by the pandemic developments and holidays. It is also pointed out that regulators, local FX committees and market infrastructure providers should have contingency plans to avoid market disruptions due to lockdowns, liquidity dry-up, or system failure.



EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt am Main, Wednesday, 18 November 2020, 14:00-16:00

SUMMARY OF THE DISCUSSION

1. Review of recent market developments and outlook

The Group discussed the outlook for major currencies and key market events for the next six months. Members reported that with the central bank support and vaccination news, markets could be in a sweet spot even if there is reluctance among market participants to take large positions before year-end. However, assuming that coronavirus (COVID-19) infection rates will flatten off, the market will look through the current nervousness and sentiment will stabilise, which will be constructive on risky assets and the normalisation of economic and market conditions into next year. The reflation theme will be a key market focus as the data next year is expected to start supporting it, with some risks concerning the US fiscal support. From an asset management perspective, members expected to see a strong performance by cyclical stocks and strong earnings growth next year, a further steepening of the US Treasury yield curve and some depreciation of the US dollar against the euro. Some members noted that the euro's substantial strengthening against the US dollar was due to the positive news about the EU recovery fund which may become a risk factor if the decisions on implementation are further delayed.

In an environment of low volatility, members discussed that low-yielding currencies such as the Japanese yen and Swiss franc may tend to underperform. On the Japanese yen, one member, while seeing it as very undervalued compared to their model estimates, still saw potential for temporary depreciation, as this is the yen's typical behaviour in a low volatility environment. Another member reckoned that the yen's moves against the US dollar have been muted largely due to the fact that Japanese local market participants are currently not very active and much less leveraged than in the past. On the British pound, one member expressed an out-of-consensus view that the announcement of an EU-UK trade deal would be negative for the pound, as once the uncertainty is resolved, it could become a good funding currency in 2021.

GFXC Conference Call December 2020 – Hong Kong FX Market Summary

Hong Kong Dollar continued to be resilient in the last two months, staying close to the strong side of the peg most of the time. HKMA has been consistently taking action in defense of the peg, and the Aggregate Balance, representing all banks' settlement account balances kept at HKMA, further increased to a record high.

Ample liquidity led to a lower HKD rates since end of September, 1 month HIBOR dropped to a ten-year low at 10bps, compared with 50bps at the end of September, and over 260bps at the start of the year. As a result, HKD and USD rates differential further narrowed to less than 10bps, compared to over 100bps we once witnessed in April this year.

Since our September conference call, HKMA has been seen intervening by selling HKD in the market, increasing the Aggregate Balance to USD 59 billion, a USD 33 billion increase from June. The strength of HKD was most notable in early November, as busy IPO pipelines continued to line up at the Hong Kong Stock Exchange, driving conversion demand of HKD. In October, market had been anticipating the mega-IPO of Ant Group, which was valued at USD 313 billion and expected to raise USD 17 billion through its listing in early November.

Much to the surprise of the market on 3 November, Ant Group's IPO was halted on both the Hong Kong Stock Exchange and Shanghai Stock Exchange as Chinese

regulators published new draft rules to the microfinance market in China. As a result, HKD slightly weakened by 30-50 pips, and has not touched the strong side of the peg since.

The IPO pipeline of the Hong Kong Stock Exchange remains strong despite the surprising suspension of Ant Group IPO. Various mainland companies are preparing to launch IPOs to raise an estimated total of US\$9 billion by the end of the year, these include Evergrande Property Services, the property management arm of the real estate developer; Blue Moon Group, China's largest liquid detergent maker and JD Health International, a health-care platform of a Chinese e-commerce company JingDong. As such, we believe HKD will continue current momentum and expect HKD will stay at the strong side of the peg till the end of the year.

Market conditions – India

Updates for 8th December 2020 GFXC meeting

1. RBI Measures and trend in Domestic Currency

- i. INR, like other EM currencies, continued to be under pressure in the build-up to the US Presidential elections with one-month ATM Vol rising to the highest level since the onset of the pandemic. However, a Biden victory along with the start of a formal transition have seen INR recover from the lows of 74.76 touched on November 4, 2020 as Dollar weakened to over 2-year lows against its peers. The INR strength was also sustained on positive news on the vaccine front. With second largest virus-related caseload, India stands to be one of the largest beneficiaries of a vaccine. This was also reflected in the record inflow into the domestic equity markets by the foreign investors in the month of November which stood at over \$ 8 billion. The inflows into the equity segment were also supported by passive inflow of around \$2.5 billion after MSCI implemented a new regime on foreign ownership limits that hiked India's weighting in its global indices. RBI remained active in the market to manage the excessive volatility caused due to the heavy inflows witnessed.
- ii. While Indian GDP contracted for the second successive quarter to enter into a technical recession for the first time, the concerns are being slowly replaced by optimism about the recovery that is taking place. The number of daily cases of virus has been actively coming down while a slew of indicators continued to edge higher, signaling re-emergence of robust demand in the economy. With forex market liquidity also improving to near pre-Covid levels, the market timings were also extended but still remain curtailed vis-à-vis the earlier timings.
- iii. While the monetary policy saw RBI stand pat in view of inflation concerns, the accommodative stance was maintained. The focus of liquidity measures by RBI will now include revival of activity in specific sectors that have both backward and forward linkages, and multiplier effects on growth. Accordingly, it has been decided to conduct on tap Targeted Long Term Repo Operations (TLTRO) with tenors of up to three years at a floating rate linked to the policy repo rate. The scheme was made available up to March 31, 2021. RBI in a first, also undertook Open Market Purchase auction of State Government Securities (quasi-government securities) along the lines of auction conducted for Central Government securities.

2. India Foreign Exchange Committee (IFXC) related developments

- (i) **Launch of the IFXC website:** IFXC has received bids from various vendors for creation of its own dedicated website which will enable it to help create more awareness among the buy-side participants. The sub-committee is in the process of selecting the winning bidder.

3. Regulatory Developments

Clearing Member Structure in the Rupee IRS Guaranteed Segment went live with effect from November 02, 2020. In the Clearing Member structure, Rupee IRS trades, referenced to the MIBOR OIS Benchmark, concluded bilaterally and dealt on ASTROID Trading Platform, can be cleared.

Market Conditions Update

2nd December 2020

- Before the U.S. presidential election, loss of liquidity and decline in market depth have been identified however, after the election, liquidity basically recovered as risk assets remained solid. There is no change in situation where risk premium is being suppressed and financial intermediation function is working normally due to the support by monetary policies and fiscal policies from countries around the globe.
- During summer flow from Japanese corporates returned to about 80 to 90 percent compared to before corona however, after reaching its peak, downturn in the industry, especially in the air and marine sectors have been affecting the overall volume. Observing recovery in liquidity and market trends, investors funding by fx swaps are trading on a longer maturity or increasing amount per transaction.
- Number of market makers in Tokyo working from home have slightly decreased during summer where virus spread and number of those requiring intensive care were mitigated. However, considering the recent rising number of people being infected, ongoing cautious stance is basically being taken. No issues have been identified relating to market support and stable operation is being maintained.
- The Tokyo Foreign Exchange Market Committee will continue to regularly follow up on the changes in the market maker's supporting stance.

Evolution of Trading Conditions in the Mexican Peso Market

GFXC Meeting – December 8, 2020

Since the last update in June, trading conditions in the Mexican peso have shown significant improvement, edging towards levels that, although not yet equivalent to those observed prior to the COVID-19 pandemic, portray a much healthier market dynamic. During this period, it must be noted that the uncertainty that prevailed in regards to the outcome of the US presidential election, caused a short-lived worsening of market conditions. Nevertheless, after such event, there was a further improvement in most trading condition metrics.

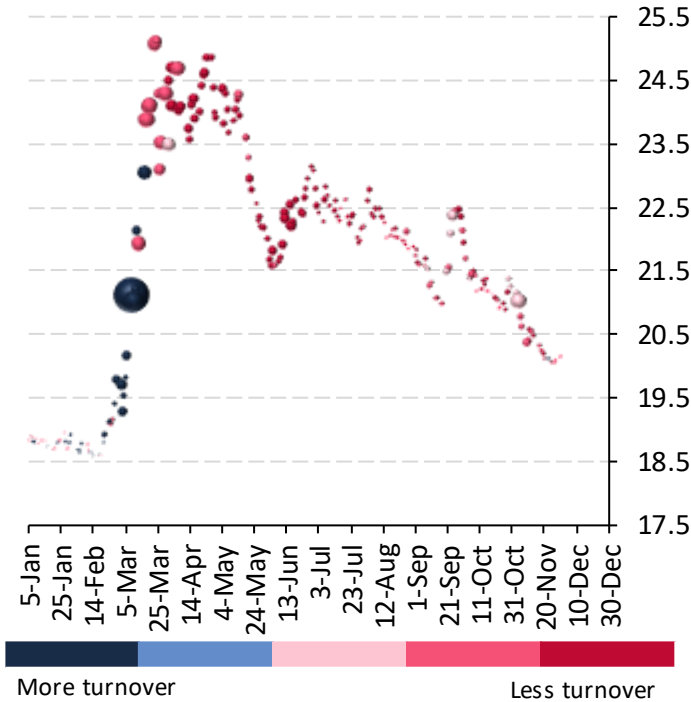
Part of the recovery in trading conditions for the Mexican peso seems to be related to the overall favourable performance of risk assets during the aforementioned period. Since the previous meeting, the Mexican peso has appreciated almost 14%, outperforming its emerging market peers, except for the South African rand. Overall, the peso's performance has been mostly related to external factors including an improvement in the global backdrop that translated in an extension of the equities rally and generalized dollar weakness, which seems to have benefited so called high-beta currencies such as the Mexican peso.

As investors have continued to show certain willingness to add on risk, exacerbated to a certain extent after the US election, interest in trading the peso has picked up, helping to improve liquidity and depth indicators. In that sense, trading volumes for the peso have picked up in the past months, driving bid-ask spreads narrower. Furthermore, anecdotal evidence from conversations with market participants point out that liquidity has returned to levels at which the markets feel comfortable trading, although perhaps not at what would be considered optimal. Top-of-book spreads are roughly around 80% above the levels that were seen on this same time period last year while depth metrics are more than 2 times higher than what was observed a year ago. With regards to the options markets, implied volatility has continued to decline, especially after the US elections occurred, along with risk reversals, although some retracement towards pre-COVID levels is still plausible.

Turning towards other aspects of the FX market, improvement has also been seen in USD funding markets. Basis points for cross currency swaps have remained low and stable in the past months as implied rates in FX forwards have persisted along levels close to the OIS curve. As evidence of this perceived renewed health in USD funding markets, Banco de Mexico conducted two USD financing auctions drawing on the swap line agreement with the Federal Reserve during September for USD 7.5 bn, with the market expressing interest for only USD 1.9 billion. To that matter, participants were vocal in expressing they no longer required USD funding from the central bank as other market alternatives had become available again. Nevertheless, conditions are worth monitoring closely as USD funding could experience some year-end pressures. In this regard, most market participants believe that the Federal Reserve's initiative to extend the maturity of its swap line agreement with central banks to March 31, 2021 could provide a relevant backstop for hampered market dynamics in case a new episode of funding constraint was endured in the near future.

Going forward, market conditions for the peso could further improve, especially as global financial conditions are expected to remain loose, and as market participants keep expressing that Mexican financial assets look attractive relative to some of its peers. In that sense, investors continue to praise solid macroeconomic fundamentals for Mexico, as well as an attractive interest rate level that, coupled with a continuation of the drop in volatility, could poise certain participants to reengage in carry trade positions, that for the moment do not appear to be crowded.

Mexican Peso Exchange Rate and Trading Conditions
Mexican pesos per US dollar

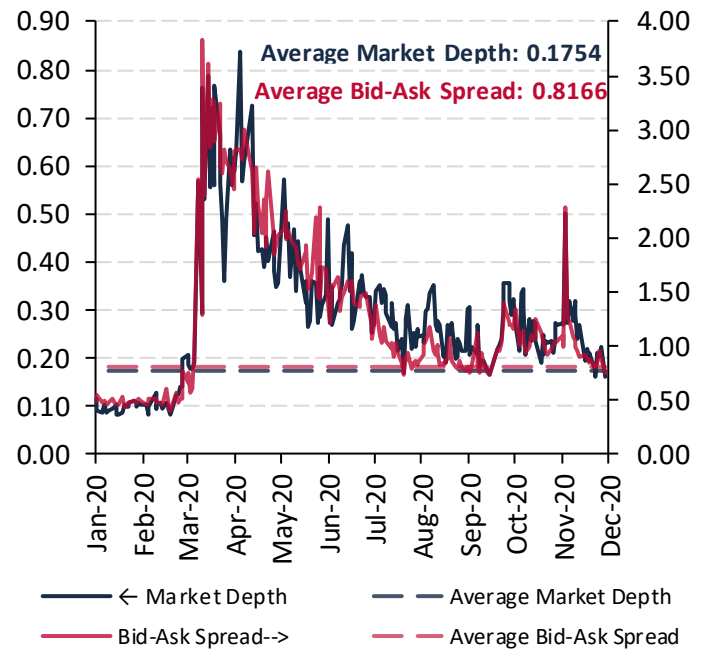


More turnover Less turnover

Note: Spot trade volume has been classified in percentiles according to historical data since January 2017 until today (0%-20%, 21%-40%, 41%-60%, 61%,80%, 81%,100%). The size of the sphere is determined by the level of intraday realized volatility.

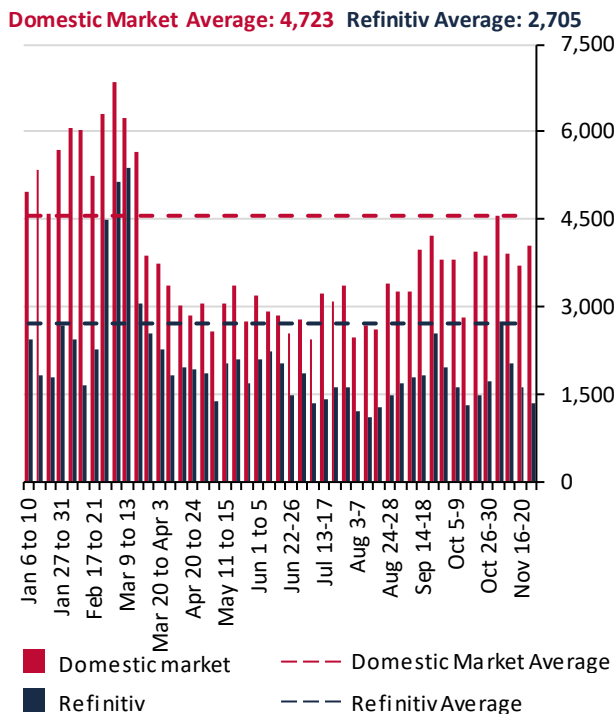
Source: Bank of Mexico calculations using internal and Bloomberg data.

Bid-Ask Spreads and Market Depth for Spot USD/MXN
Mexican Peso Cents



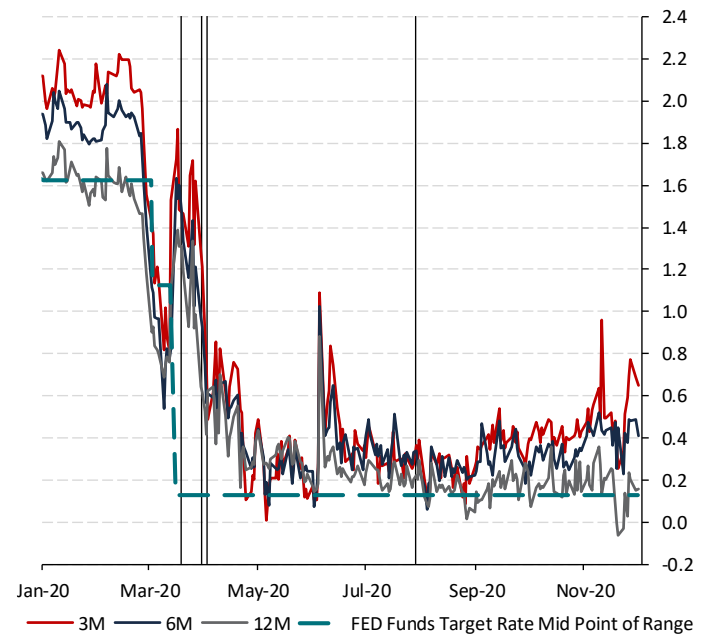
Source: Bank of Mexico with data from Refinitiv

USD/MXN Spot Traded Volume
Millions of US dollars



Source: Bank of Mexico with data from Refinitiv

USD Forward Implied Yields in the USD/MXN Forward Curve
Percentage



Note: Vertical black lines represent the announcement of coordinated action of the BOC, BOJ, ECB, FED and SNB to enhance the provision of liquidity via the standing U.S. dollar liquidity facility (March 15th), the agreement between the Federal Reserve and Banco de Mexico to establish a 60 billion dollars temporary swap-line (March 19th), the announcements by the Mexican Foreign Exchange Commission (March 30th and April 2nd) about the use of the aforementioned swap line to offer credits in US dollars during two auctions for 5 billion dollars each, and the announcement of the Federal Reserve to extend the term of the swap-line for Banco de México and other central banks until March 2021 (July 29th).

Source: Bank of Mexico calculations with Bloomberg and Refinitiv data.

Summary of market conditions in the Scandinavian FX market

Development in Danish kroner:

- DKK has traded on the strong side of the central rate during the fall of 2020. Since the change in interest rate middle of March the DKK has generally strengthened.
- The situation in the EURDKK spot and swap market has not changed significantly since the spring of 2020 and the liquidity in the FX market is still not normalized since March.
 - The daily trading ranges have increased since the outbreak of Covid-19.
 - Activity seems evenly split between domestic and foreign market participants.
- A volatile period for implied rate differentials on EUR/DKK FX swaps (EUR/DKK curve has been positive at times during the period) predominately tracing the DKK net position.
- The EURDKK may fluctuate by up to 2.25 per cent on either side of the central rate, but in practice Danmarks Nationalbank ensures that the fluctuations are far smaller. This reflects that Danmarks Nationalbank takes consistent action as the krone exchange rate starts drifting away from the central rate.

Development in Norwegian kroner:

- There has been significant volatility in the Norwegian krone since September. Developments in the krone has correlated closely with developments in the oil price and the risk sentiment in financial markets. An improving risk sentiment after the US election and positive developments on Covid-19 vaccines, and a higher oil price has contributed to a stronger Norwegian krone.
- Implied volatility has come down from record high levels in March, but is still higher than before the outbreak of Covid-19. Liquidity in the market for Norwegian kroner has normalized compared to March, but the market for Norwegian krone is small, and at times liquidity can be poor.

Development in Swedish kroner:

- The Swedish Krona (SEK) has gradually strengthened over the last couple of months. EURSEK has dropped from around 10,50 to 10,15 and in trade weighted terms the SEK has appreciated approximately by 4 percent. There are a few potential reasons for the recent appreciation in SEK.
 - Relative interest rates have gradually increased the last year.
 - There has been no strict lock-down in Sweden, which puts less drag on the Swedish Economy.
 - Good global risk sentiment – tends to be positive for SEK.
 - Solid Swedish Public Finances is attractive to some investors.
- Over the period, volatility has been rather muted and the SEK appreciation has been gradual and orderly. Overall, the market place for SEK has been well behaved. Due to recent developments, with low volatility and a lack of (planned) upcoming events in Sweden, priced volatility in the options market has dropped close to historical lows

Summary of conditions in SGD FX markets

- SGD FX liquidity conditions have generally stayed benign as tail risks receded on positive developments on the COVID-19 vaccine front and the increasing certainty that there will be a peaceful handover of the Trump administration to President-elect Biden and his team. Against this, risk sentiments have been positive, characterised by the broad-based USD weakness. The SGD strengthened +2.4% against the USD in the period from 23 September to 25 November 2020, in line with regional currencies.
- The notable market event over this period was the US election, with market participants pricing in considerable uncertainty in the run-up, as seen from the increase in the implied volatility of USDSGD FX around the polling day. Bid-ask spreads also climbed to a high of around 10 pips on the morning of 4 November SGT (typical post-COVID-19 level is around 2 pips), similar to levels observed during the peak of COVID-19 crisis in March. Nevertheless, market functionality remained intact throughout the event, and as the risk of a contested election dissipated, the market also started to price out such a risk as evidenced from the pullback in implied volatility and the narrowing of the bid-ask spread.
- Nonetheless, downside risks remain, with the cone of uncertainties remaining wide. Growth momentum of the global economy is losing steam after the strong rebound in Q3 and the shadow of the virus continue to loom over economies. In addition, notwithstanding that vaccine candidates have gone into phase three trials and are on track for approval by end-2020, uncertainty remains over the eventual results, timelines for distribution, availability of vaccines for the masses, and whether the vaccines would lose efficacy as time passes. While the acute phase of the crisis is behind us, the current chronic stage is expected to be more protracted.
- Against this uneasy backdrop, USDSGD FX implied volatilities have remained at elevated levels, despite having eased significantly from the highs in March (Figure 1). Similarly, the bid-ask spreads of USDSGD spot FX and volumes have not fully normalised to pre-crisis levels (Figures 2 and 3).
- In comparison, domestic USD funding conditions continue to be accommodative, anchored by the Fed's USD60bn bilateral swap line with MAS and more broadly, the suite of backstop liquidity measures by the Fed (Figures 4, 5 and 6). Market participants shared that having the MAS USD Facility in place has been reassuring, notwithstanding the low usage of the facility.
- The year-end illiquidity has been less of a concern for the first time in recent years given the presence of backstop liquidity. The overnight FX swap-implied USD interest rate in Singapore and the region for turn-of-the-year funding (i.e. borrowing USD from 31 Dec 2020 to 4 Jan 2021) are capped at relatively low levels (Figure 7). This is unlike the previous years, where precautionary funding ahead of the year-end period would result in significant upward re-pricing of USD liquidity. For example, for the 2019 year-end period,

the overnight turn-of-the-year pricing for USD funding via USDSGD FX swap was about +35 bps higher relative to the prevailing fed funds rate, compared to the current 0.18% which is in line with the current fed funds rate.

Fig. 1: USDSGD Volatility and Risk Reversal (YTD)

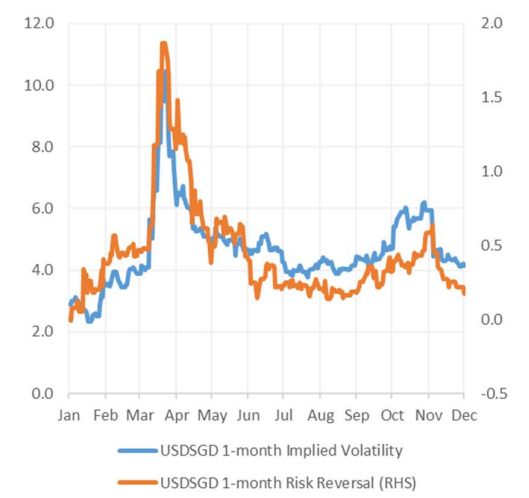


Fig. 2: USDSGD bid-ask spread

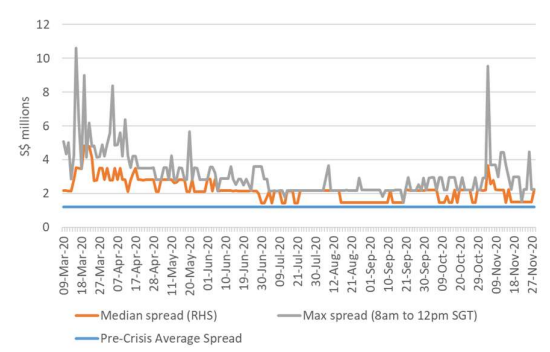


Fig. 3: USDSGD volume

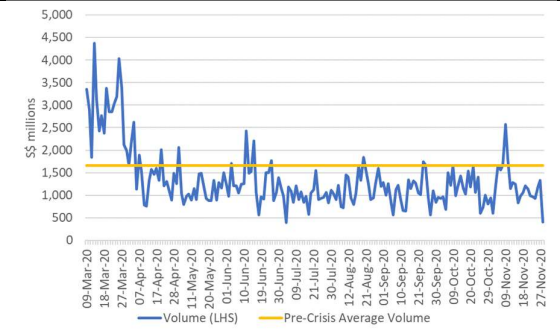


Fig. 4: 6M SGD Onshore Forward Points Bid-Ask Spread

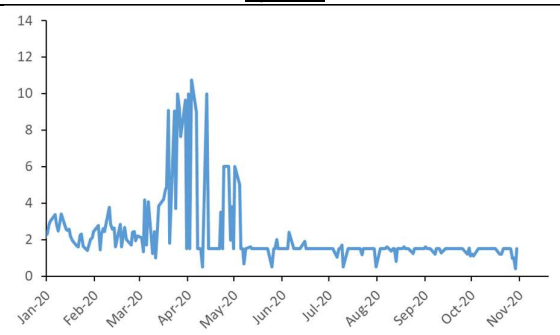


Fig. 5: Implied Regional Term USD Funding Rates (3M)

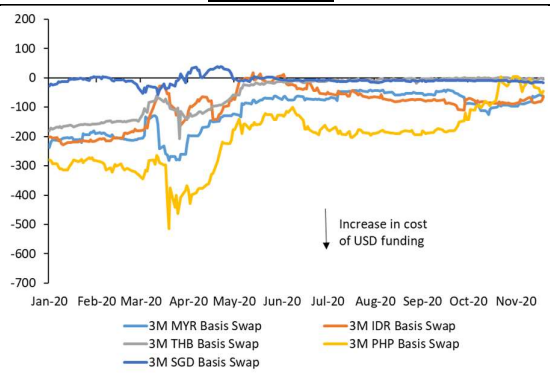


Fig. 6: Regional Term USD Funding Rates (1Y)

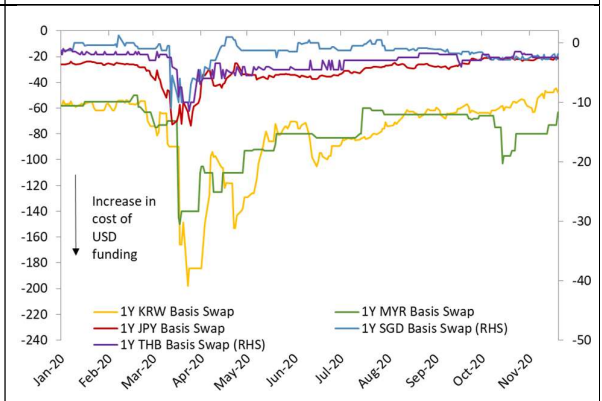
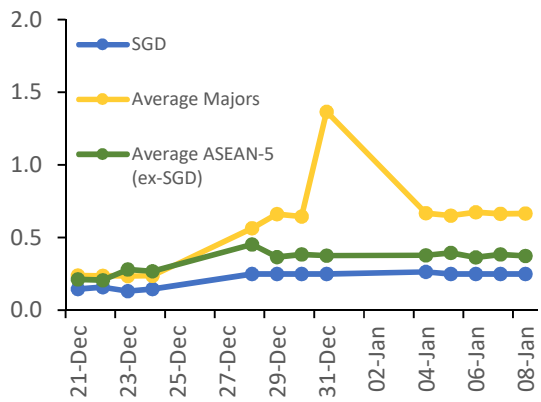


Fig. 7: Overnight Forward-Forward FX-Implied USD Yield around the Turn of the Year



Note: Data from Bloomberg NDF Ticker, as of 25 Nov. Majors refers to EUR, JPY and GBP. USD yield on a particular date shows the implied USD yield computed from an overnight FX forward-forward valued on that date.

Briefing Note

South African Foreign Exchange Committee | SAFXC



8 December 2020

Summary of market conditions in the South African foreign exchange market

Spot market conditions

Since 2H2020, the nominal exchange rate of the South African rand (ZAR) appreciated by more than 10% against the USD to trade around the level of R15.1300, its best level since March 2020. The currency benefited from a supportive international backdrop, improved global risk sentiment and an underperformance of the USD. The ZAR barely reacted to the downgrade of the South African sovereign ratings deeper into sub-investment grade by Moody's Investor Services and Fitch Ratings.

On a traded weighted basis, the ZAR appreciated by nearly 8% in 2H2020. Much of the ZAR appreciation occurred during the fourth quarter of 2020, reflecting market optimism around the development of a Covid-19 vaccine and prospects of additional economic stimulus in the US following the presidential elections.

Meanwhile, ZAR volatility indicators have eased somewhat, but remained above pre-Coronavirus crisis levels. The 3-month USDZAR options implied volatility eased to 15.20%, well below the 22.3% high recorded in March, but remained slightly above 14%, a level last traded in February 2020. The average USDZAR trading range narrowed to around R0.20 from R1.23 in March.

Liquidity conditions improved, with the USDZAR bid-offer spread narrowing to pre-Coronavirus crisis levels of 200 pips in 10\$ZAR. Meanwhile, the daily average turnover for spot transactions increased to USD2.0 billion in September, compared to USD1.6 billion in July.

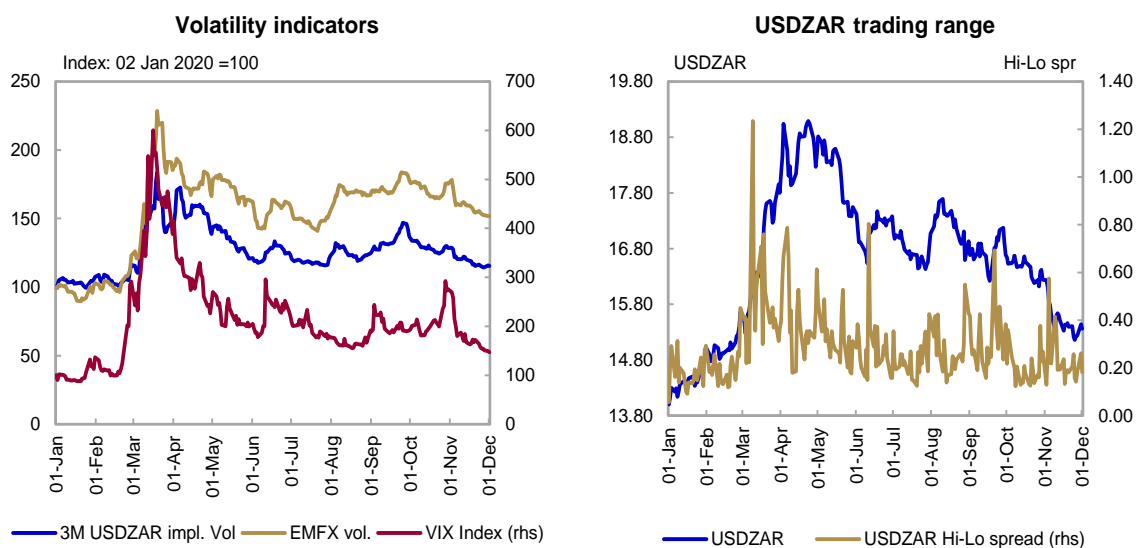
Foreign exchange forward market

In contrast to improving spot market conditions, liquidity conditions in the forward market worsened somewhat, marked by widening spreads. The widening spreads reflected amongst others, changing market dynamics, a USD liquidity supply glut in the local market partly associated with the foreign exchange swaps conducted for the international finance institutions (IFI) and some inefficiencies in the flow of liquidity between certain segments of the interbank market. The FX implied rates increased by between 100-150 basis points (bps) above money market rates along the forward market curve.

These market developments led to a sharp increase in the cost of ZAR funding via the forward market. In general, the FX implied rates tend to trade between 25-30 bps above the repo rate, with the spread occasionally widening above 50 bps on seasonal demand. However, price discovery in the forward market continued unimpaired, and market participants continue to adequately fund themselves.

In line with increased funding pressures in the FX forward curve, the 1-year ZAR cross currency basis swap increased to a historical level of 100 bps.

Figure 1: The exchange rate volatility indicators improved somewhat



The Current Trend of FX market in South Korea

December 2, 2020

- USD/KRW exchange rate(won) has decreased since last conference due to USD weakness and CNH strength, relatively good economic indicators of Korea, investor sentiment improvement caused by resolution of uncertainties in the U.S. presidential election.

* USD/KRW Rate(won): 1,169.5 end of Sep → 1,135.1 end of Oct
→ 1,106.5 end of Nov → 1,100.8 on Dec. 2

- In FX swap market, USD liquidity condition has improved somewhat mainly due to continued easing monetary policies in major economies, investor sentiment improvement caused by resolution of uncertainties in the U.S. presidential election in spite of demand for foreign currency from domestic institutional investor for overseas investment purposes.

* Swap basis(3M, bp): -42 end of Sep → -47 end of Oct
→ -28 end of Nov → -27 on Dec. 2

- In the meantime, the Bank of Korea and the Ministry Economy and Finance have introduced a new foreign currency liquidity supply facility through transaction of foreign currency bond repurchase agreements carried out by competitive auction. It may conduct when necessary in consideration of the USD liquidity condition in Korea.

Zurich, 24 November 2020

Swiss FX Committee (SFXC) view on FX market conditions

1. Operational set-up

Market participants continue to operate smoothly with split team arrangements, working from different locations (primary site, recovery site, teleworking from home), and/or alternating between those locations on regular basis. The share of people in the markets units at sell side firms currently working at the primary sites has again declined following the home office recommendation issued by the Swiss Federal Council in October and is estimated to be below 50%.

2. FX market conditions in Switzerland

Since the last GFXC call in September, FX markets functioned normally. The CHF has traded sideways in nominal trade weighted terms for most of the time. A more positive market sentiment, driven by hopes for an effective vaccine that could become available soon, led to a small CHF depreciation in November. However, the CHF remains currently 1% higher in trade weighted terms compared to the beginning of the year (Chart 1).

Liquidity conditions were good in the last couple of weeks with spreads in the interbank market being close to the long-term averages. Turnover on primary markets has remained below average, in particular for EURCHF.

FX swap market conditions remained calm. As expected, USD funding for maturities covering the year-end became a bit more expensive. Consequently, since mid-October 2020, demand in the SNB's 3 months USD auctions has picked up somewhat (Chart 2).

The implied volatility for EURCHF and USDCHF has fallen in line with other major pairs in the G10-universe since mid-September and is currently only slightly above levels that prevailed before the outbreak of the pandemic.

Chart 1: CHF spot market

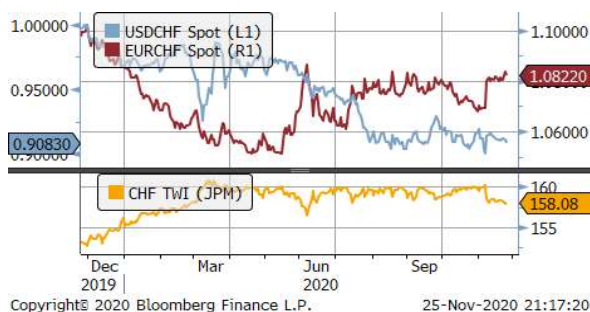
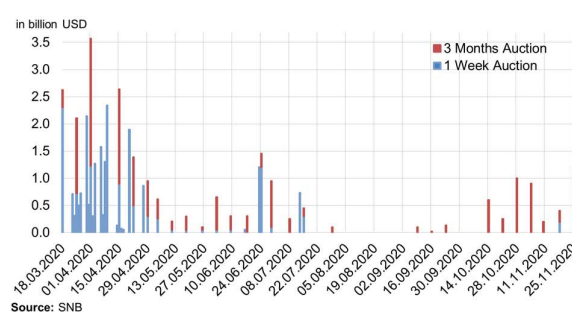


Chart 2: SNB's USD Repo Auctions



GFXC Conference Call – 8 December 2020

Update on FX Market Conditions

London Foreign Exchange Joint Standing Committee (FXJSC)

At its 19 November 2020 meeting, the FXJSC discussed the market response to the US election results and the potential market implications of the near-term timeline for Brexit.

US election

- Events around the US election result led to modest declines in the USD. The outcomes of the congressional elections were seen as likely to result in future USD stimulus falling in the middle to lower range of pre-election expectations.
- FX Market functioning around the US election was strong. Traded volumes for some participants did not show major increases compared to daily volume baselines. Trading in Asian hours was notably higher, but this pattern did not recur in other trading windows.

COVID-19

- The positive news on COVID-19 vaccine developments had catalysed a shift towards positive sentiment and demand for risky assets which in turn had kept some pressure on the USD.
- Broader market functioning was largely unaffected by rising COVID cases and imminent lockdowns with remote working and contingency planning well established.

Sterling

- Participants discussed how anticipating the FX impact of Brexit was rendered more complicated by (1) ongoing uncertainty over the final outcome, (2) the pandemic proving to be the primary focus for investors in recent months.
- The discussion also touched upon the macroeconomic background of the ongoing negotiations. The contraction of the UK economy in 2020 was forecast by some parties to be close to -12%. The balance between the UK's fiscal position, including the impact of 2020's COVID-related support measures, and the positive private sector savings shock in 2020 was mentioned as a key consideration looking into 2021. The size of the shock from COVID-19 could mean the UK was more responsive to positive news on vaccine development.

December 1, 2020

The following summarizes the NY FXC's discussions on markets and other themes since the last GFXC meeting.

- The U.S. election and the development of Covid vaccines have been the two main FX market themes over recent months. Taken together, these developments have led to an overall risk-positive reaction across financial markets, with the U.S. dollar continuing to depreciate broadly (notably against EM currencies), the S&P 500 reaching all-time highs, and intermediate-to-longer dated U.S. Treasury yields increasing moderately since September.
- In FX markets, FXC members discussed these developments in the context of declining volatility, which may have further encouraged allocation from the U.S. dollar towards higher-yielding currencies.
- Overall FX market liquidity conditions have continued to improve since the notable strains experienced earlier in the year.
- FXC members also discussed their firm's remote working scenarios and return-to-work plans. While individual firm's work postures varied, it was widely noted that operations were functioning well in the remote (or semi-remote) arrangement. In addition, however, members discussed the risks that this structure posed over time, as issues such as new staff integration, training, compliance, new idea generation, and work-from-home fatigue could be exacerbated over time.