

# ECB Foreign Exchange Contact Group

Review of recent markets developments and outlook

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Global Banking and Markets

20<sup>th</sup> November 2025

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- 2. EMFX performance and drivers**
- 3. FX volatility market developments**
- 4. Digital assets recent developments**
- 5. FX market structure developments**
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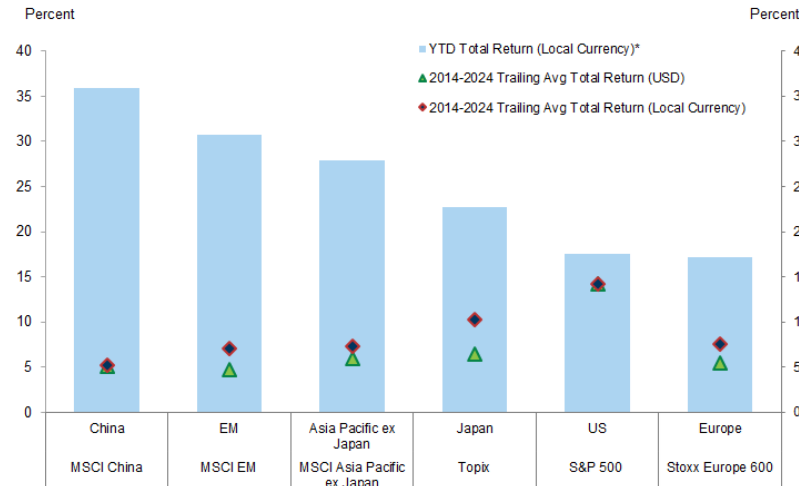
# FX performance, backdrop and outlook

USD: volatile H1, rangebound H2, still overvalued. US equity performance less exceptional amid shifting correlations

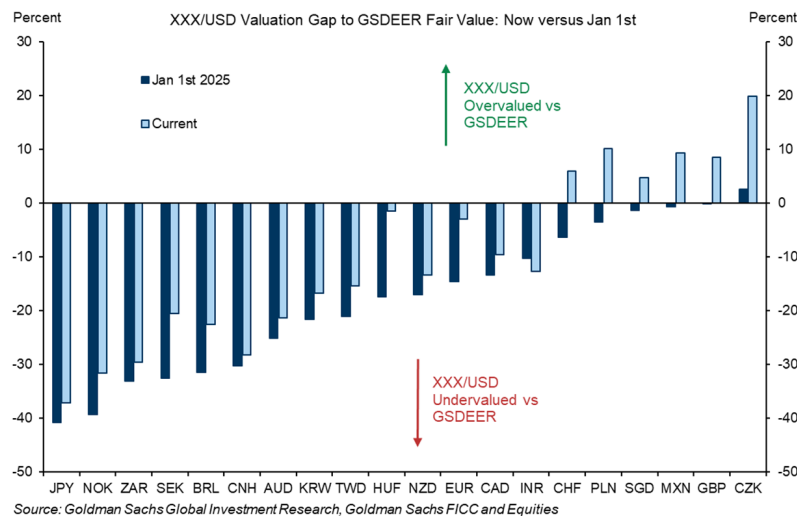
**The broad Dollar has mostly moved sideways in recent months, despite lower US yields versus other markets**



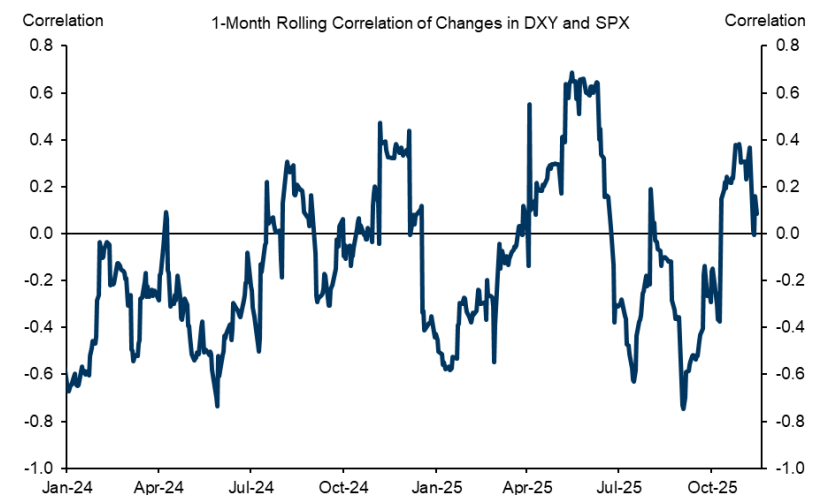
**Stronger-than-typical performance in the rest of the world accounts for the more balanced global market environment thus far this year**



**The Dollar remains overvalued, but that overvaluation has narrowed across the course of this year**



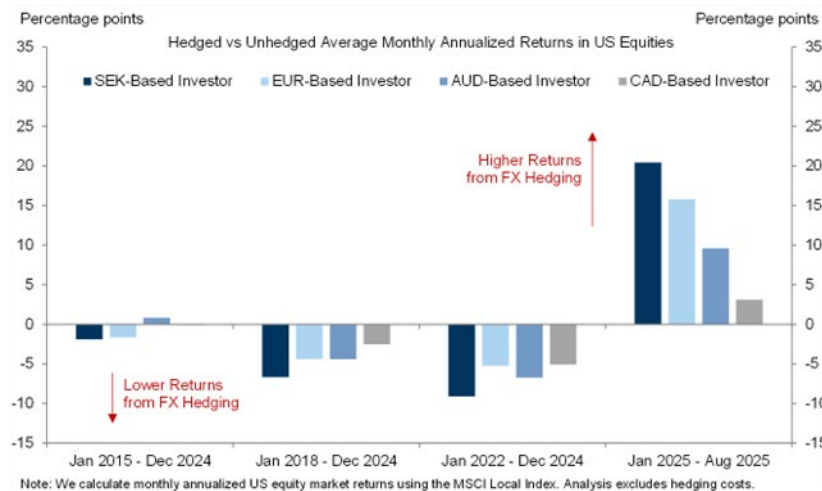
**The Dollar's 1-month correlation to equities has drifted higher again recently, though not to the extent of the April/May**



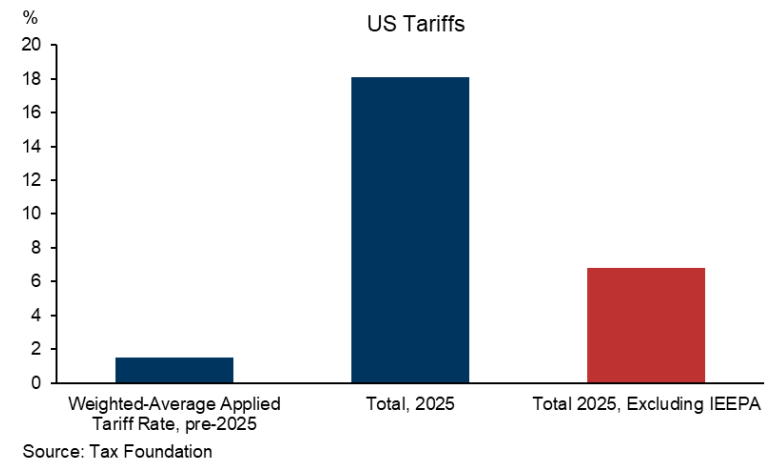
# FX performance, backdrop and outlook

FX hedging impactful, tariff risk still uncertain, fiscal risks impacting FX, US equities recover

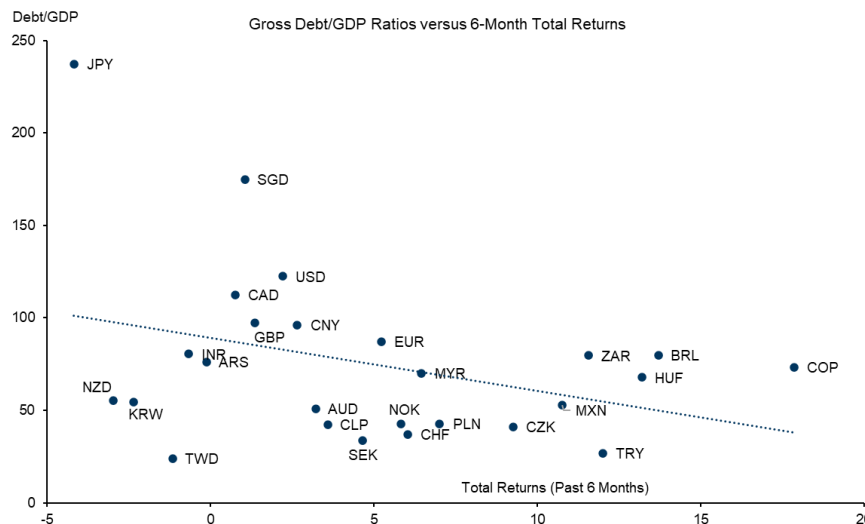
**Most non-US investors would have benefitted from hedging their US equities exposure this year**



**A Supreme Court decision to overturn IEEPA-based tariffs could meaningfully reduce the US's effective tariff rate**



**There are signs of a negative correlation**



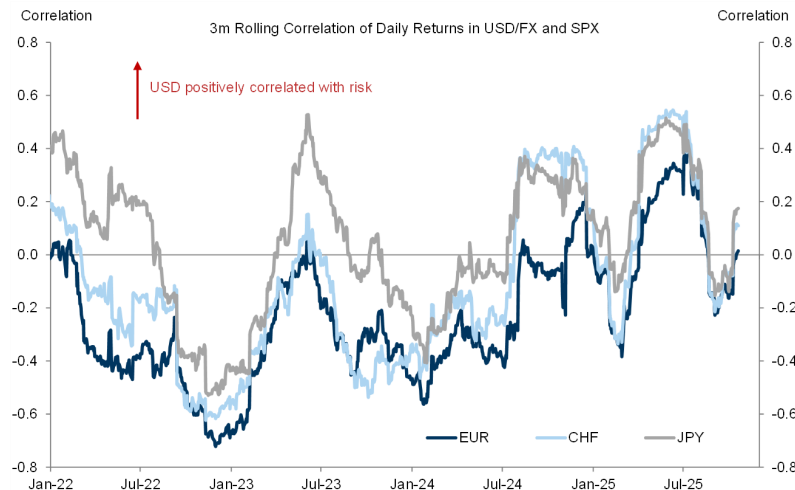
**US equities have switched back to outperforming global benchmarks in H2, supporting the Dollar**



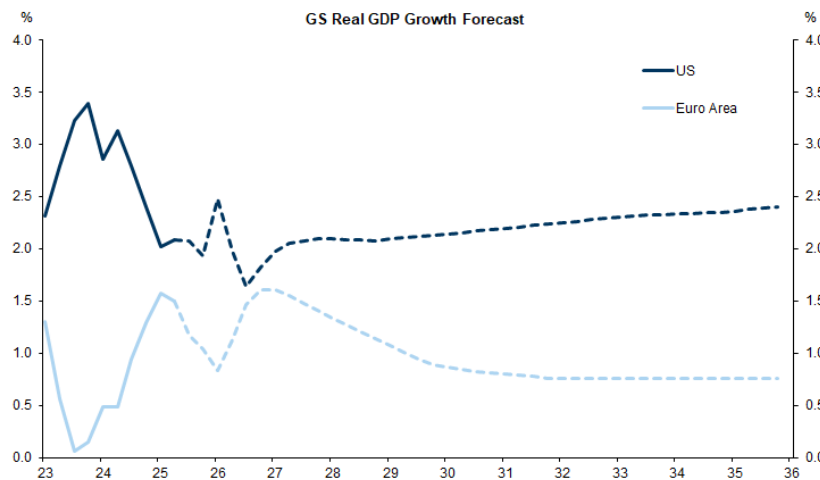
# FX performance, backdrop and outlook

EUR/USD: trading more as a haven and still undervalued. Growth convergence may reverse, but with less impact on FX

**The Dollar's weaker haven appeal means EUR trades more like JPY + CHF in response to risk shocks**



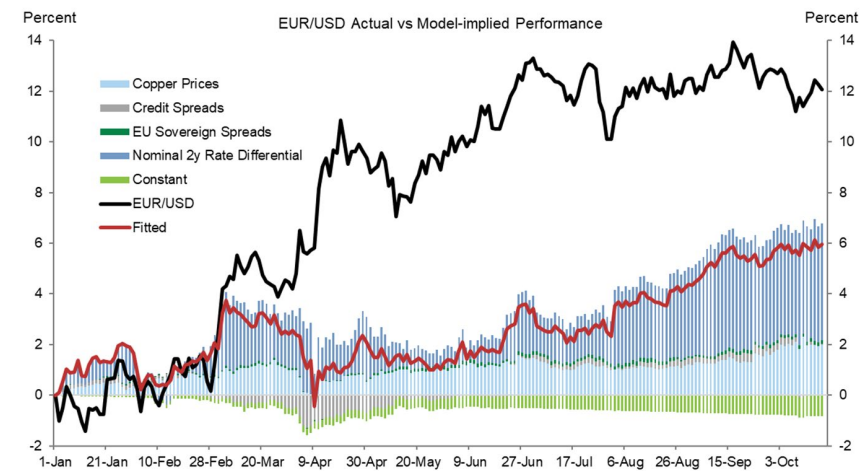
**Recent convergence between US and Euro area growth will prove to be temporary in our view**



**EUR remains 10-15% undervalued on our estimates**



**EUR/USD has outperformed our cyclical model by ~6% YTD (vs ~10% at peak)**

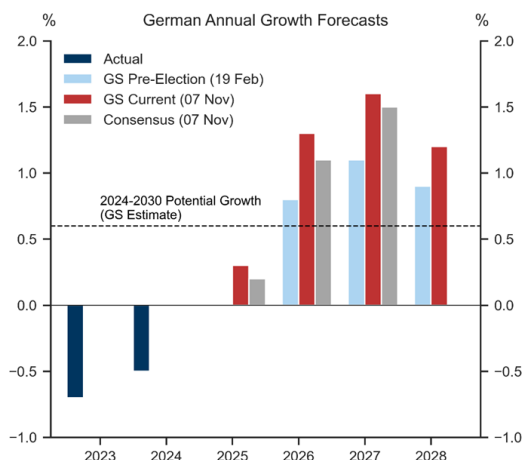


Source: Goldman Sachs Global Investment Research

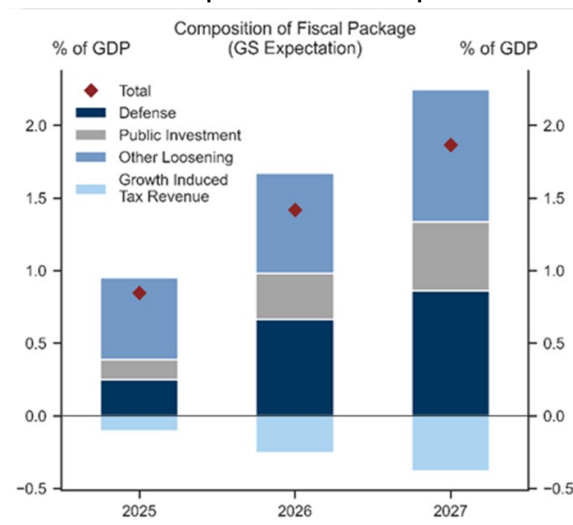
# FX performance, backdrop and outlook

EUR/USD: German fiscal policy remains key

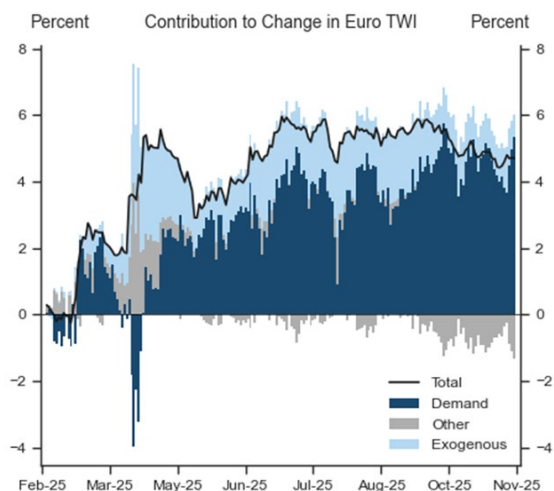
The German growth outlook looks bright



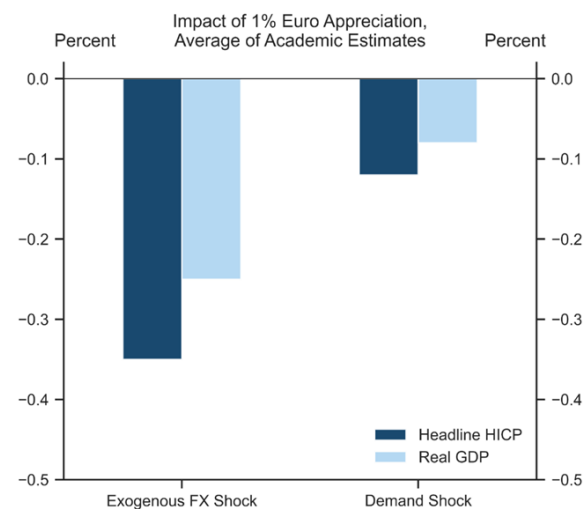
Mostly as a result of our expectations for the impact of the German fiscal package



The Euro's appreciation this year mostly came in March on German fiscal news, and in April on US tariff announcements



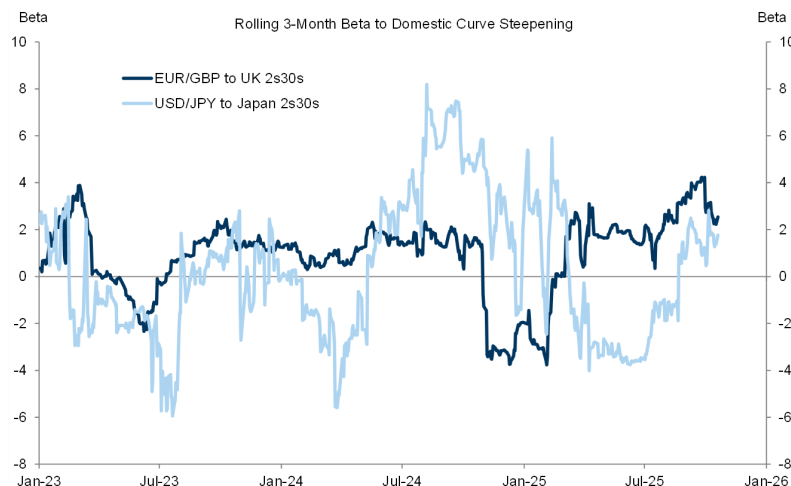
A 1% Euro Appreciation Lowers Output and Prices by Around 0.1% Each



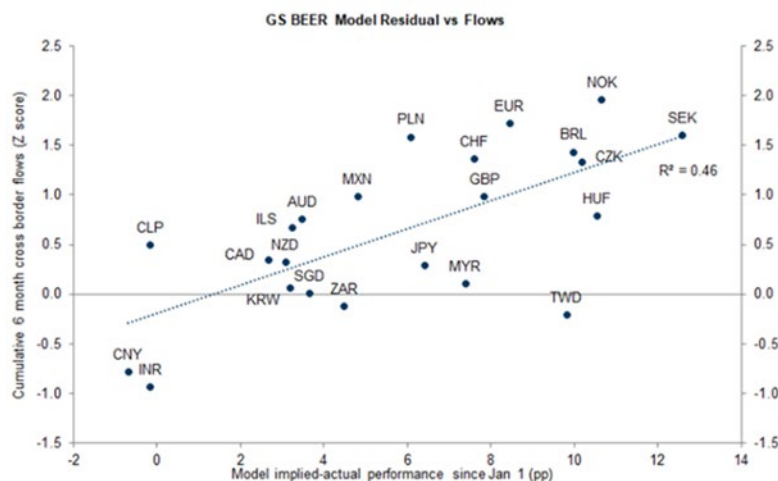
# FX performance, backdrop and outlook

Other G10: fiscal weakness impacting GBP & JPY, gold shines brightly,  
Scandies supported by inflows, and monetary policy to remain a driver

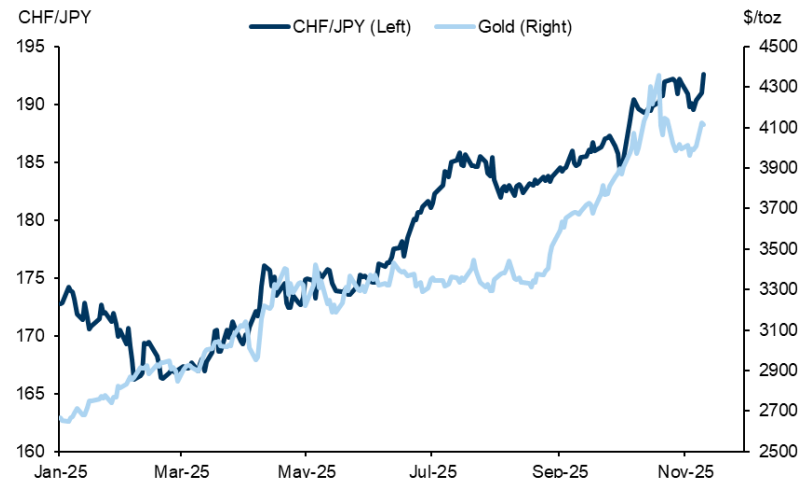
**GBP and JPY have both shown an increased sensitivity to curve steepness in recent months, reflecting domestic fiscal risk premia**



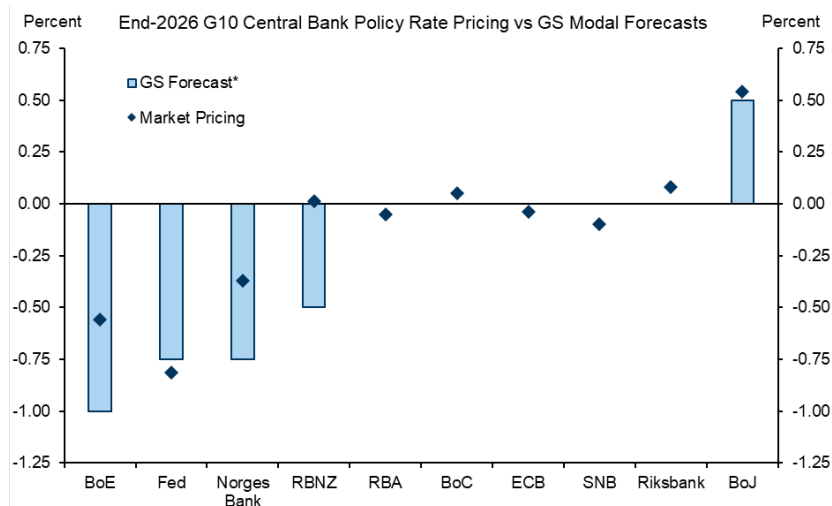
**Cross border flows supported both NOK and SEK earlier this year**



**The rally in gold this year has come alongside relative strength in currencies backed by economies with strong fiscal positions**



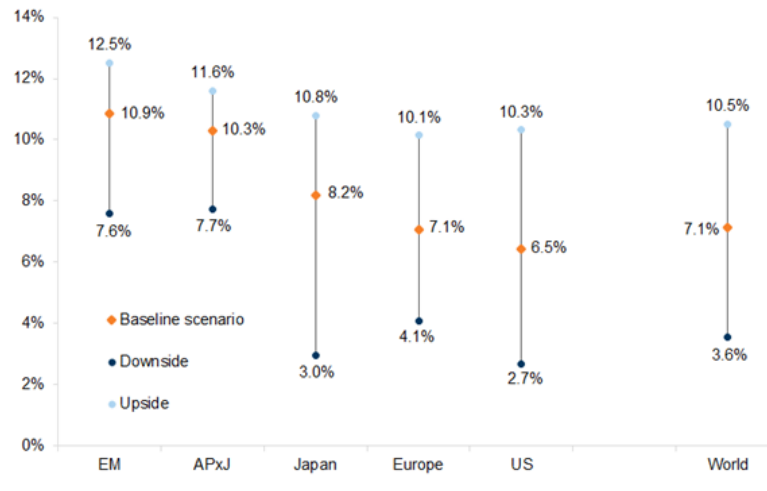
**Our modal G10 policy rate views imply dovish risks to BoE rates market pricing**



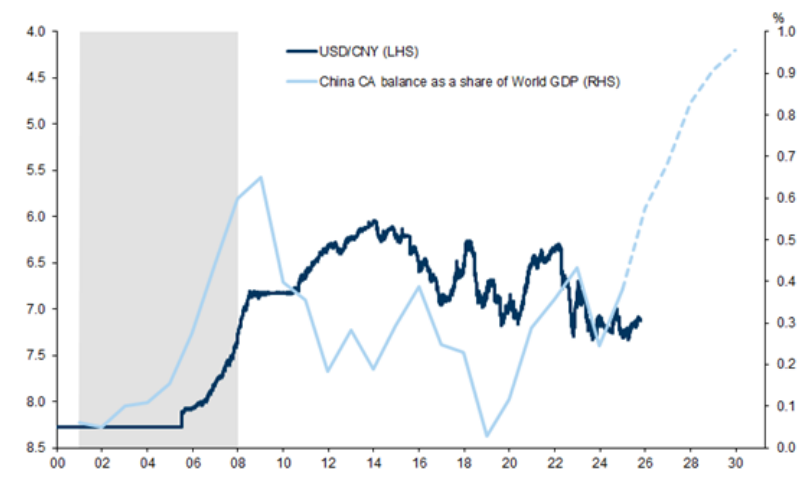
# EMFX performance and drivers

Asset returns to remain supportive, China bouncing back...posing a threat to Europe, whilst carry continues to drive performance

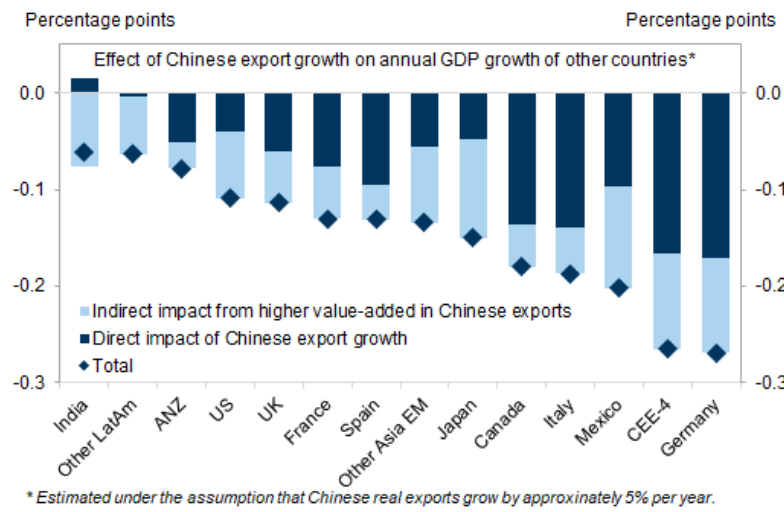
Our baseline assumes broadly favourable conditions without incorporating extreme shocks or blue-sky optimism  
(10-year forward local return in local currency - GS forecast)



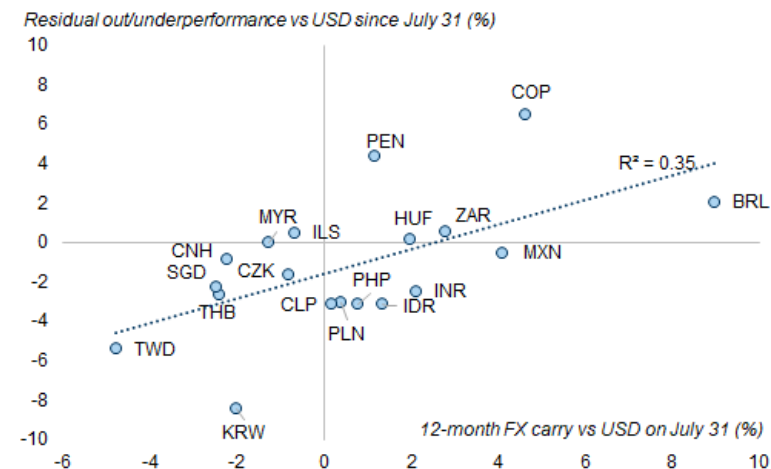
The last time China's external sector was similarly dominant (at the time of the first China shock), it was followed by a large currency appreciation



China's high-tech export growth could be negative for other economies



Residual out/underperformance across currencies continues to have a strong correlation to carry levels

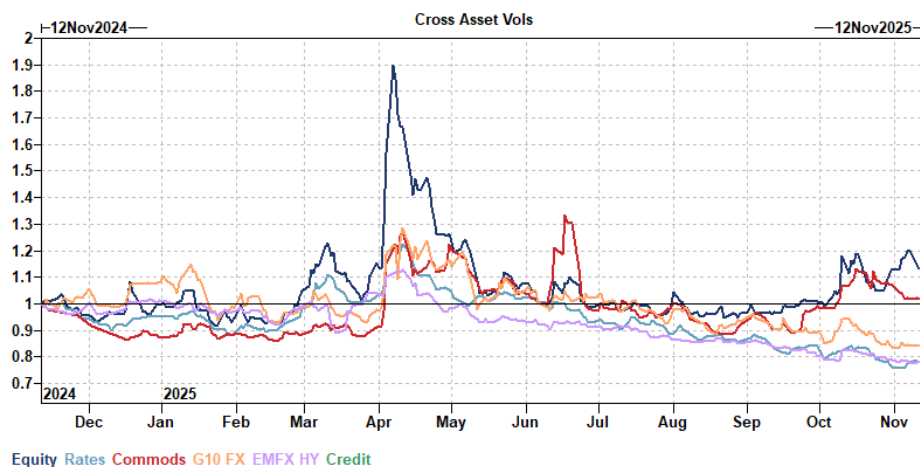




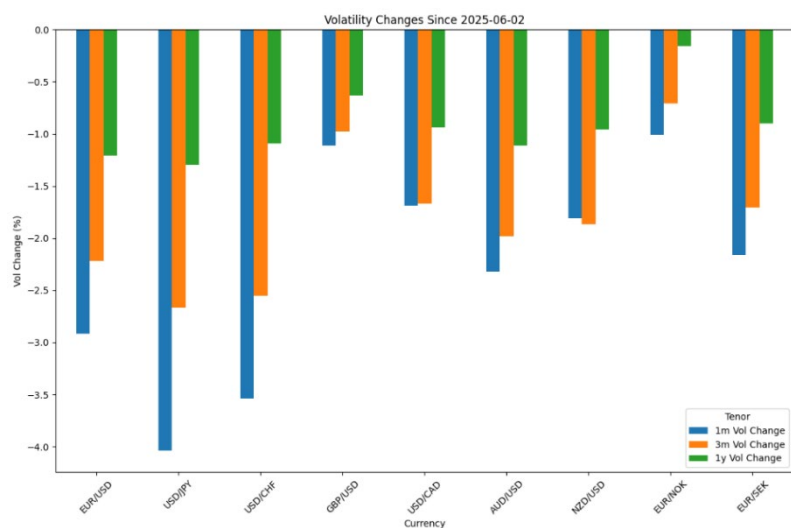
# FX Volatility Market Developments

FX volatility falls more than other asset classes and close to YTD lows, with notable curve steepening in H2, with risk premium well off the highs

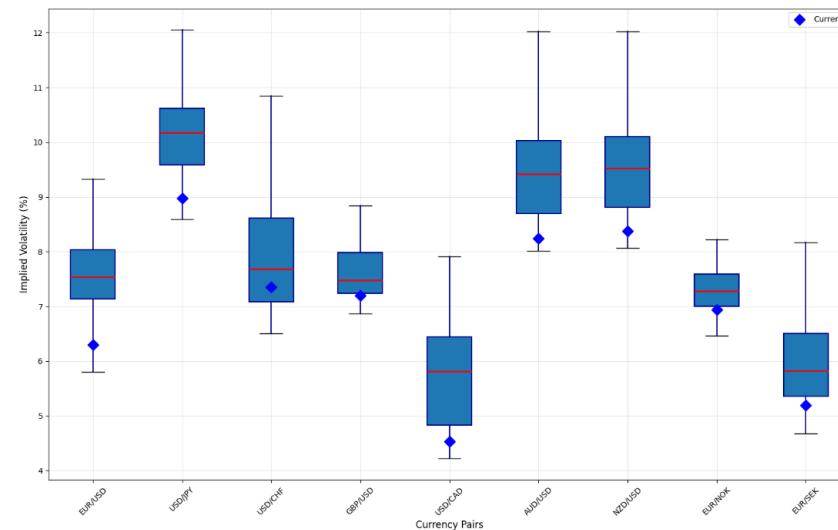
## FX Vols have collapsed relative to Commodity and Equity Vols



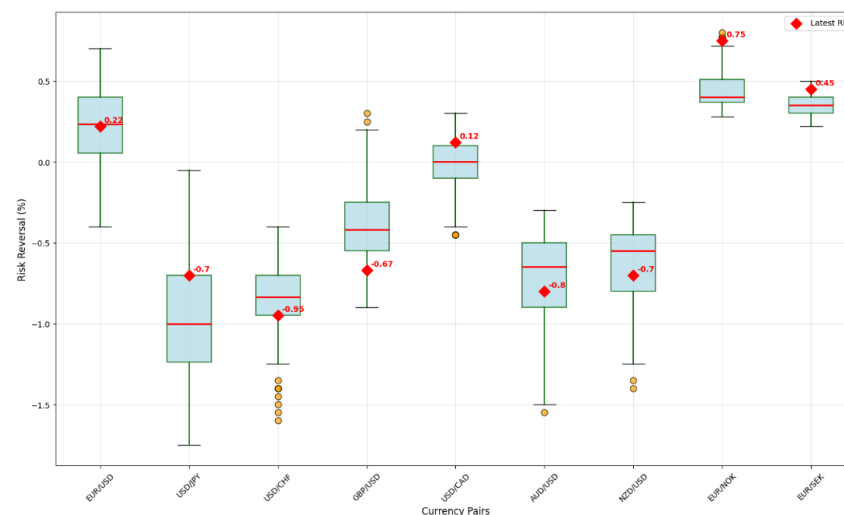
## Since the beginning of summer, we've seen a sharp steepening in vol curves



## Vols are trading towards the bottom of the YTD distribution



## Skew Distribution - risk premium has come off far from the highs

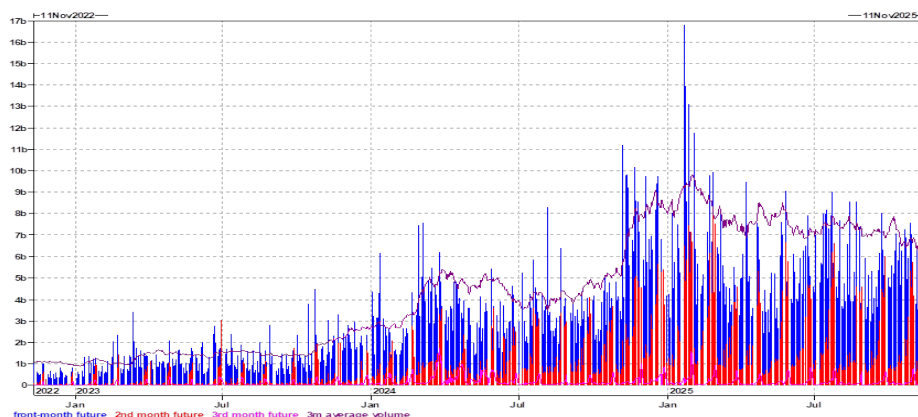


Source: Goldman Sachs FICC & Equities. Goldman Sachs Global Investment Research, charts as of 14<sup>th</sup> November 2025

# Digital Assets

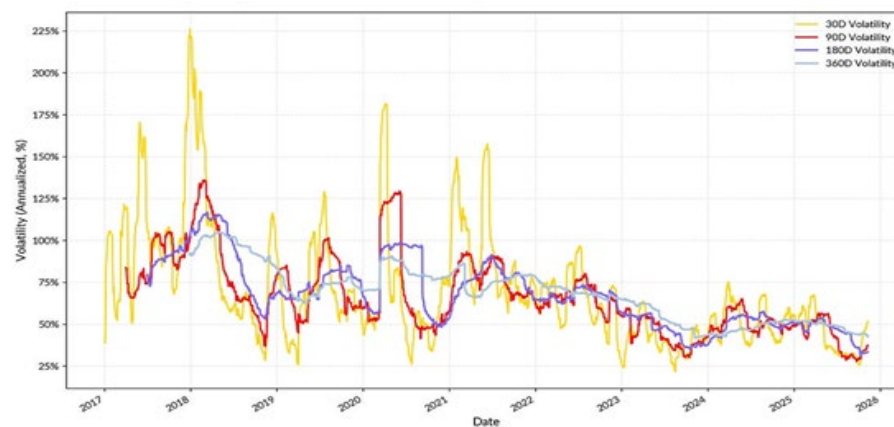
Ongoing maturation of the asset class with rising volumes and falling volatility

Figure 1: Bitcoin CME Future volumes have been increasing (\$)



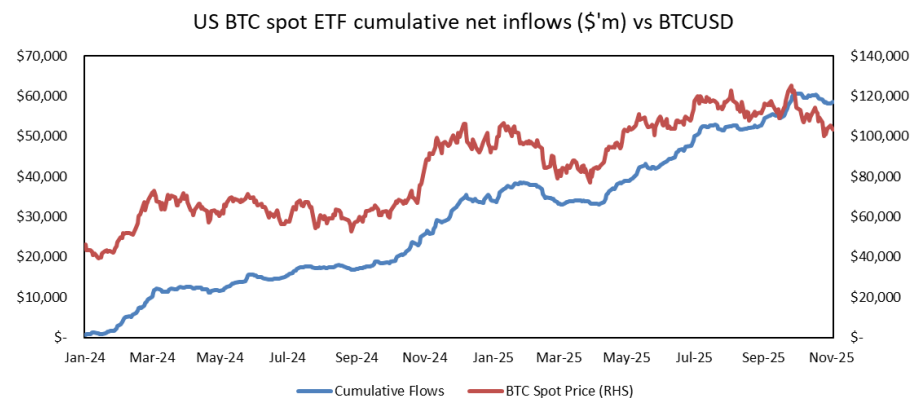
Source: GS Sales and Trading as of 11 Nov 2025, past performance is not indicative of future returns

Figure 2: Bitcoin Realized volatility (and vol of vol) decreasing



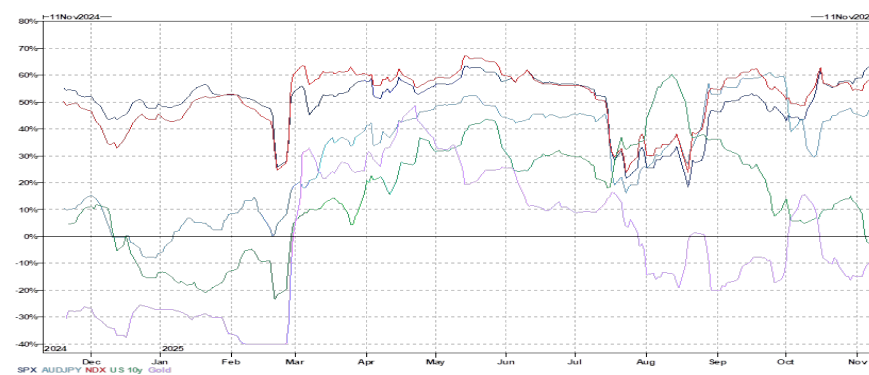
Source: coinmetrics.io as of 11 Nov 2025, past performance is not indicative of future returns

Figure 3: US BTC ETF cumulative net inflows over past 2 years



Source: Bloomberg as of 11 Nov 2025, past performance is not indicative of future returns

Figure 4: Bitcoin correlation: US equities (60%), Gold (Flat to negative for large parts of year)

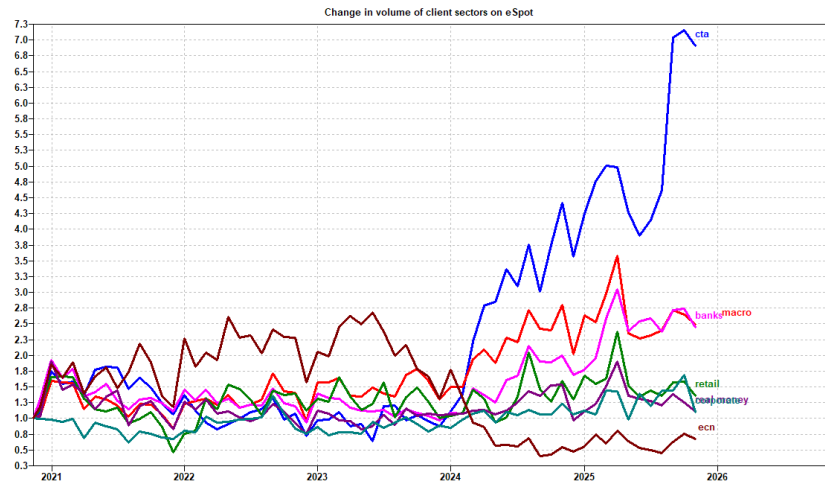


Source: GS Sales and Trading as of 11 Nov 2025, past performance is not indicative of future returns

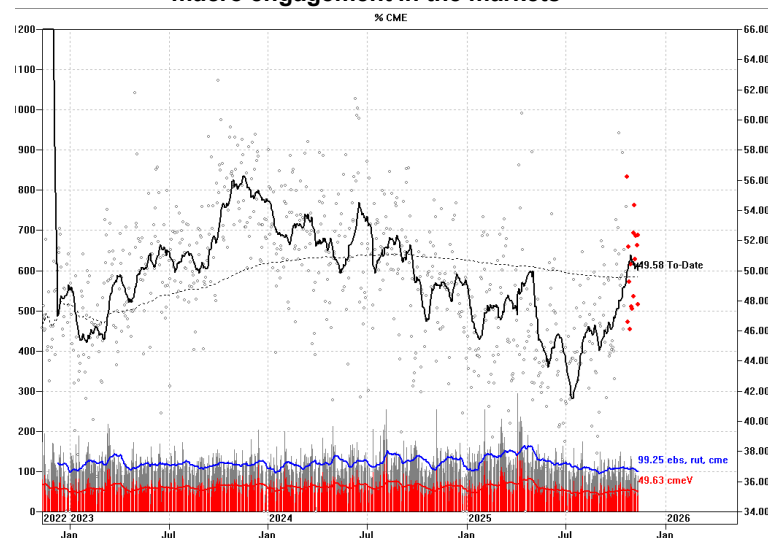
# FX spot market structure

Systematic share growing in modest overall volume growth, with trading moving back into futures, amidst volume drop post US government shutdown

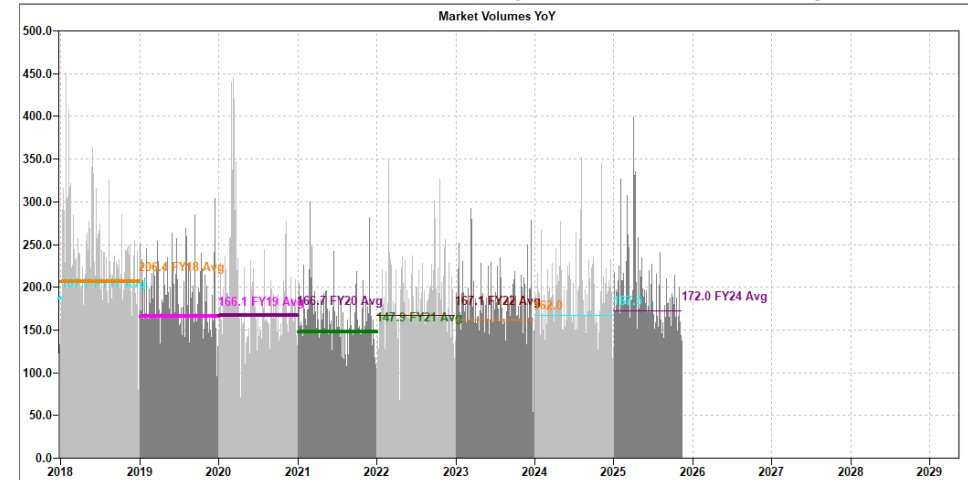
## Significant growth in systematic trading and bilateral trading between banks



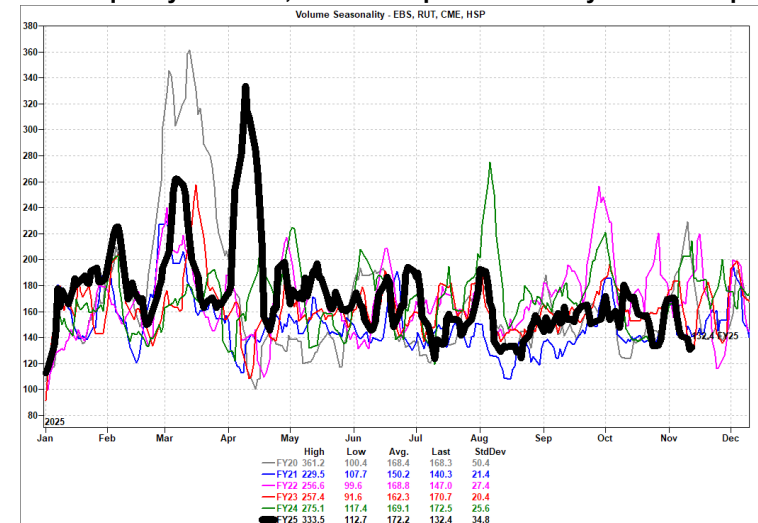
Share of volume going via CME vs EBS and Reuters likely grew - giving back share gained in the past 18 months aided from new order innovation and macro engagement in the markets



## Market volumes consistently higher - once we strip out noise from metals reported below approximately flat of late vs 2024 average.



Shut down had limited impact on market functionality, a lower baseline was noted but M/E was typically sized with no liquidity stresses, tick to tick price discovery was not impacted



Source: GS Global Markets Division. Data valid as of 13<sup>th</sup> November 2025

# Questions and talking points

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1. What impact will the end of the US government shutdown have on FX markets, especially FX volatility?
  2. Will a December pause by the FOMC have any lasting impact on currencies, particularly higher yielders?
  3. Will the timing of appointment and identity of the next FED chair be impactful for FX markets?
  4. How sustainable is the European recovery story as a bullish factor for the Euro?
  5. What are the key factors driving the depreciation in JPY as indicated by the latest survey outlook relative to September
  6. Do we expect any material resumption in FX hedging of US assets by non-US asset managers and with what impact?
  7. Can the resilience in EM currencies seen this year continue into 2026?
  8. Can the debasement theme continue to play out to the detriment of fiat currencies and benefit of alternatives such as precious metals and crypto assets?
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# References

Referenced publications by Goldman Sachs Global Investment Research

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1. [Global Econ Views: Job Market Holds the Key, 21-Oct-2025](#)
  2. [Global Market Views: After the Fed Shift, 29-Sep-2025](#)
  3. [European Views: On Track for Better Growth and Steady Rates, 2-Nov-2025](#)



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