



FX update and outlook September 2025

ECB Foreign Exchange Contact Group

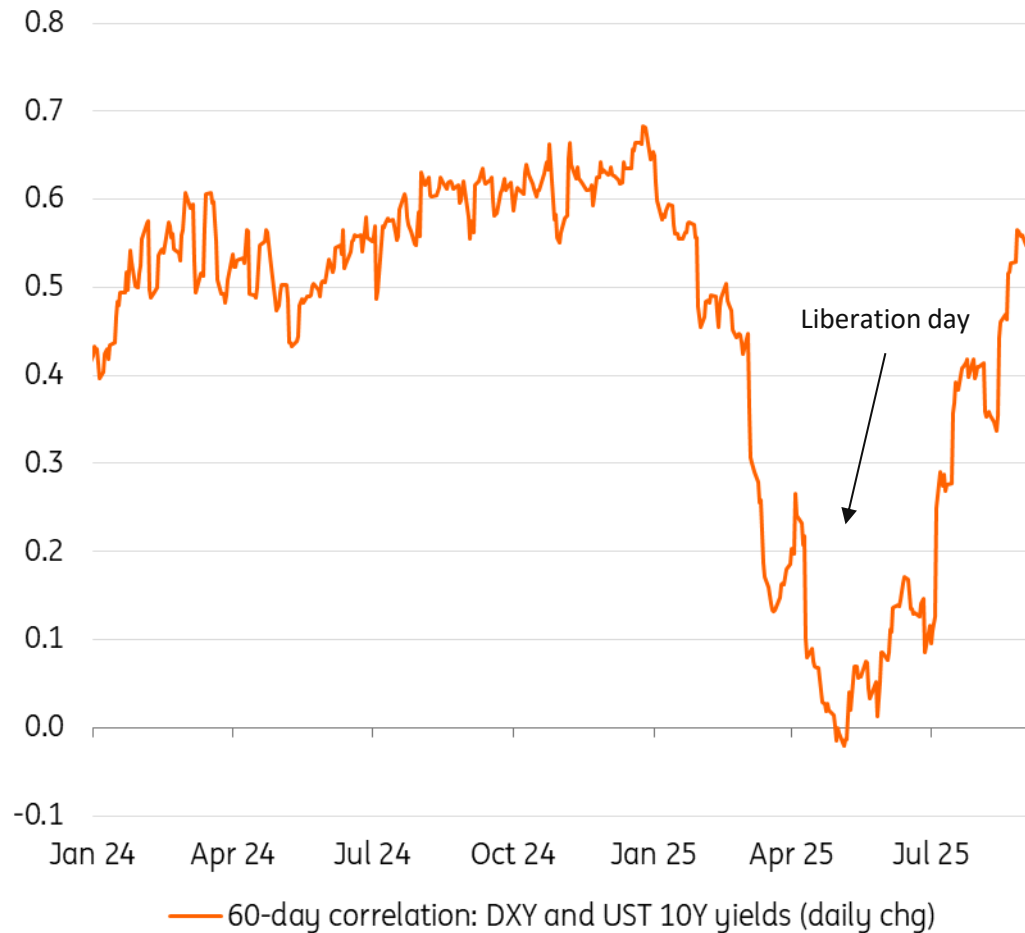
Gary Prince
ING Bank
24 September 2025



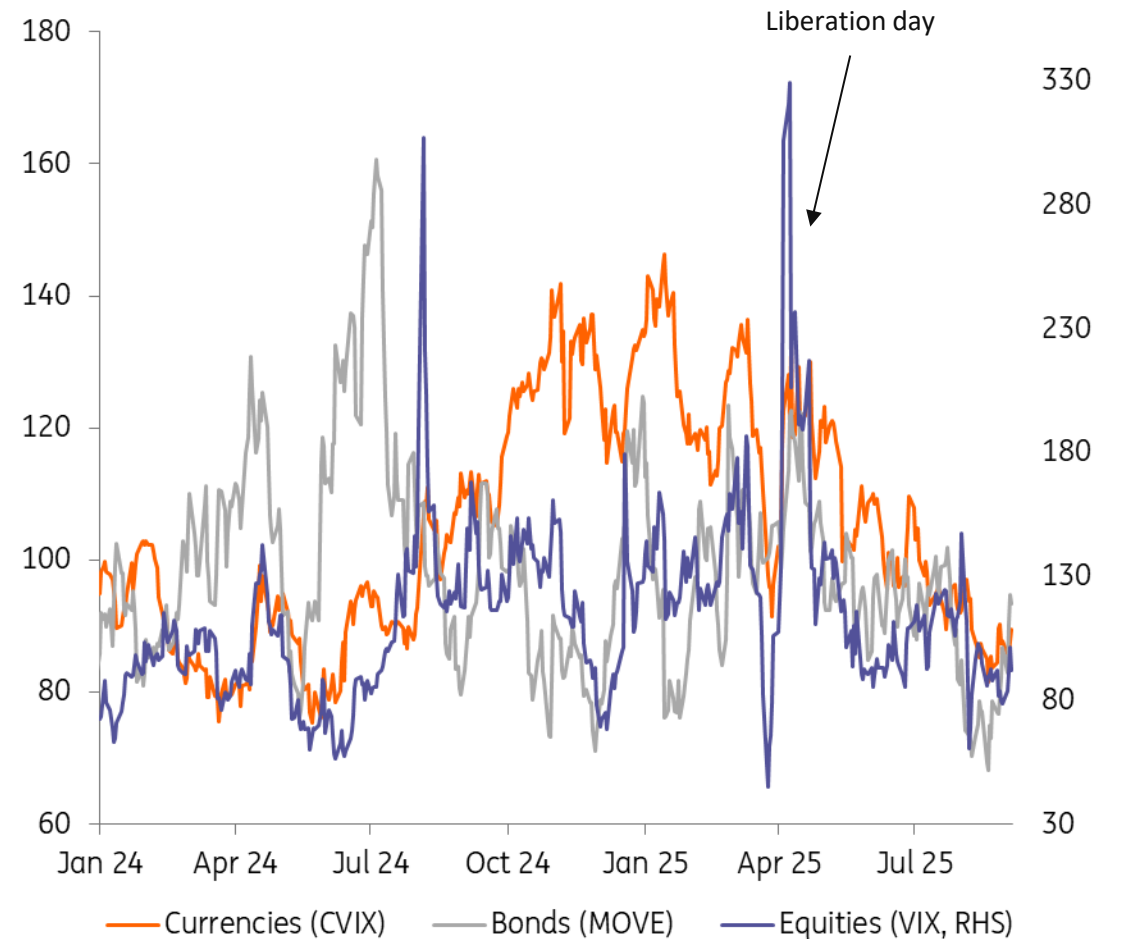
FX market has normalised in the third quarter

US Treasury vs. Dollar correlations normalised in the third quarter, expected volatility dropped

USD-UST 60-day correlation



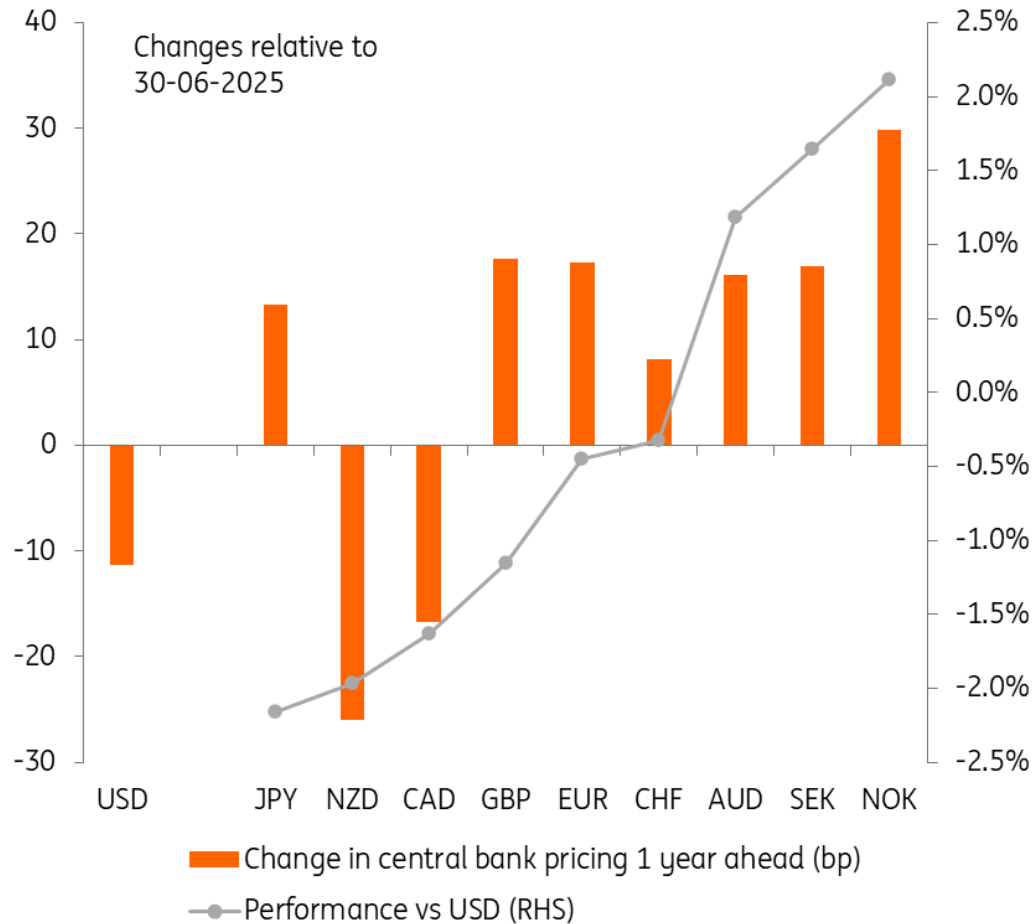
Traded volatility measures from FX, US Treasury & Equities



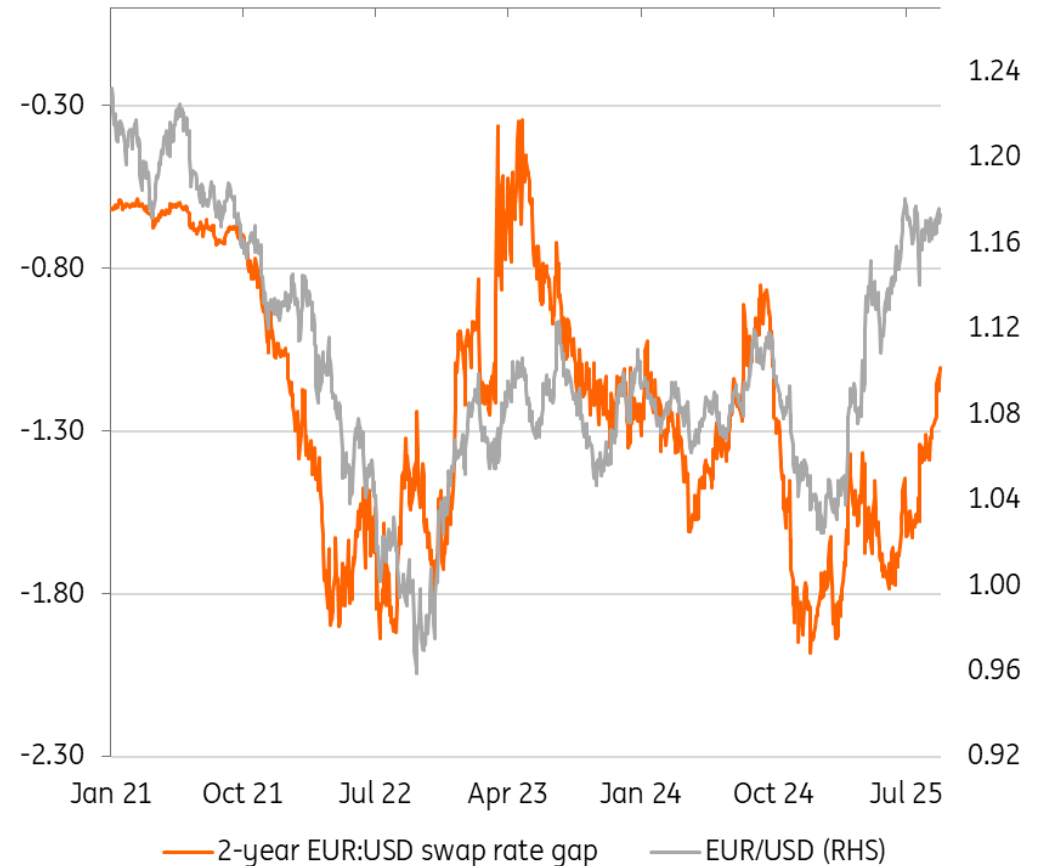
3Q24 FX price action: Terminal rates and \$ risk premium

G10 FX price action (ex JPY and GBP) consistent with terminal rate pricing

FX QTD performance versus change in CB pricing



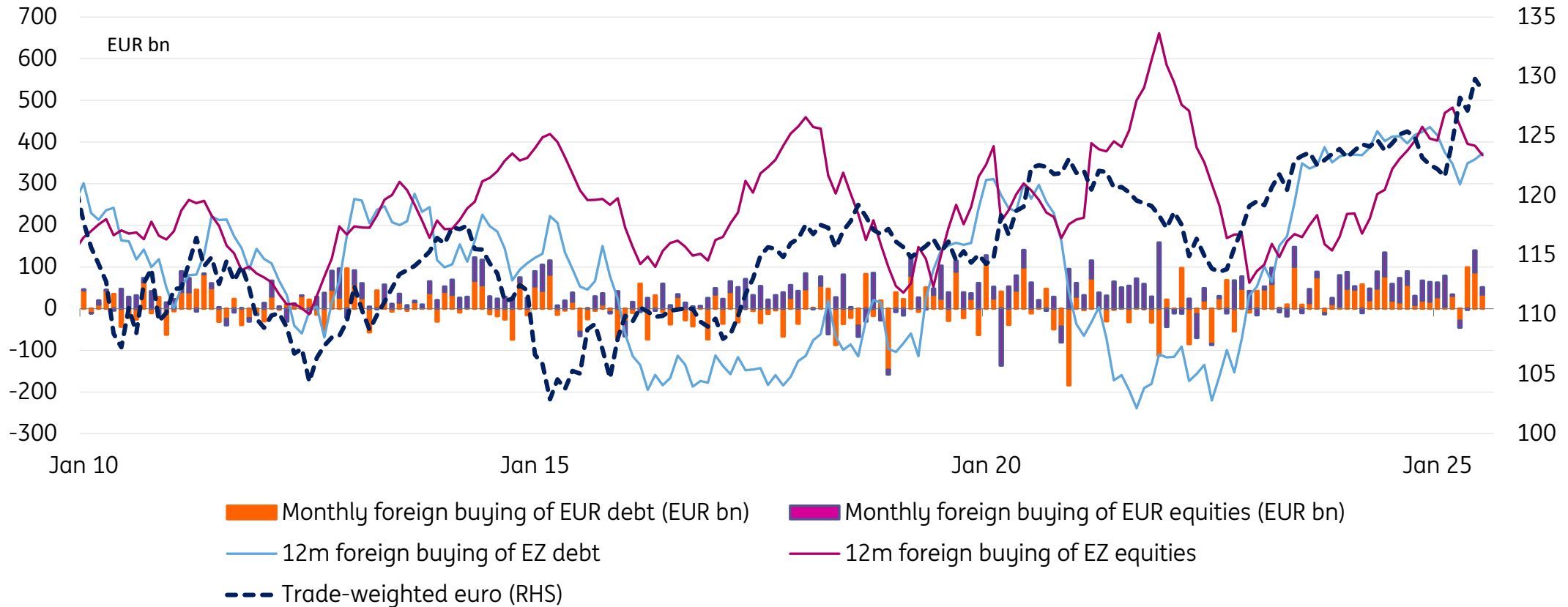
EUR/USD versus two-year swap differentials



Foreigners are steady investors in euro area asset markets

May/June/July saw decent demand for euro area assets, especially debt product

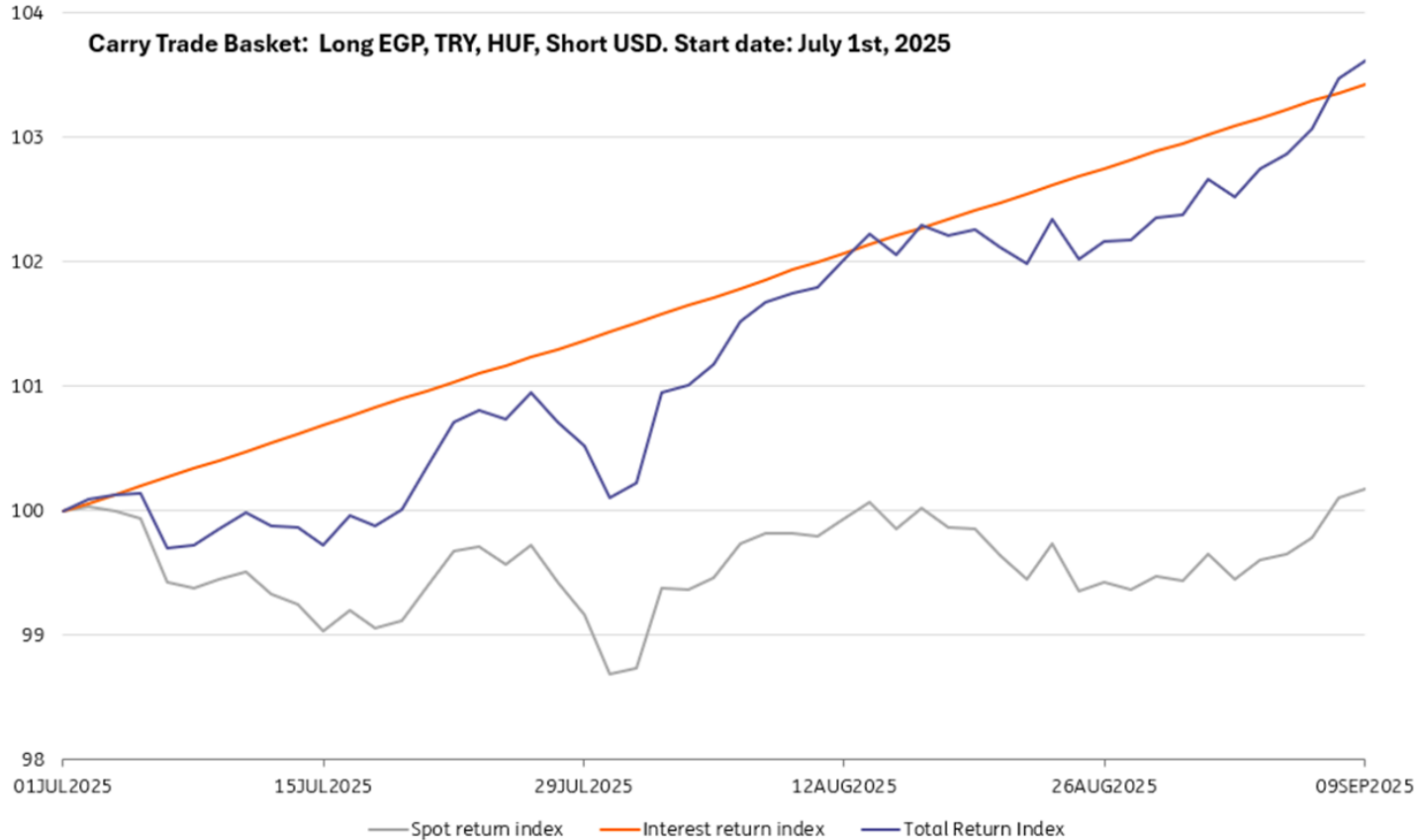
Foreign purchases of euro assets on a monthly and twelve-month basis (EUR bn)



Carry trade set to remain popular as Fed cuts rates

Lower volatility, more liquidity likely to maintain interest in the FX carry trade

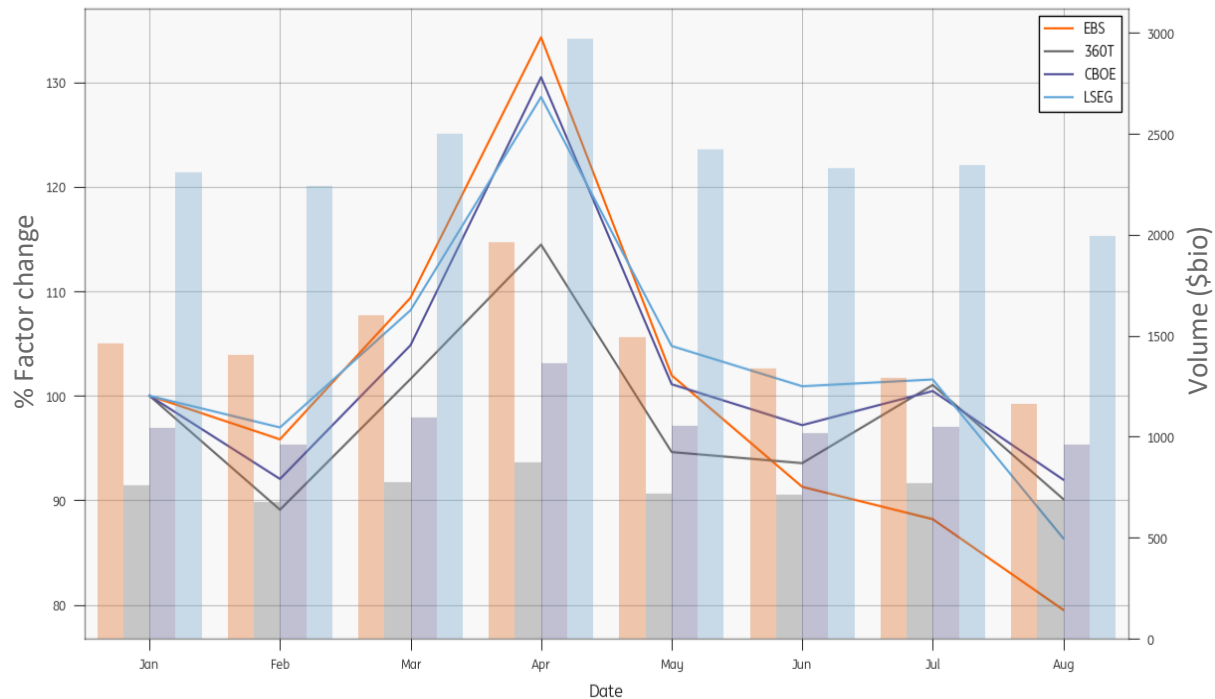
Third quarter 25, quarter to date performance of EGP, TRY, HUF carry basket funded out of USD



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Volumes dip in August ... consensus remains for a weaker USD

FX spot venue volumes



FX forecasts

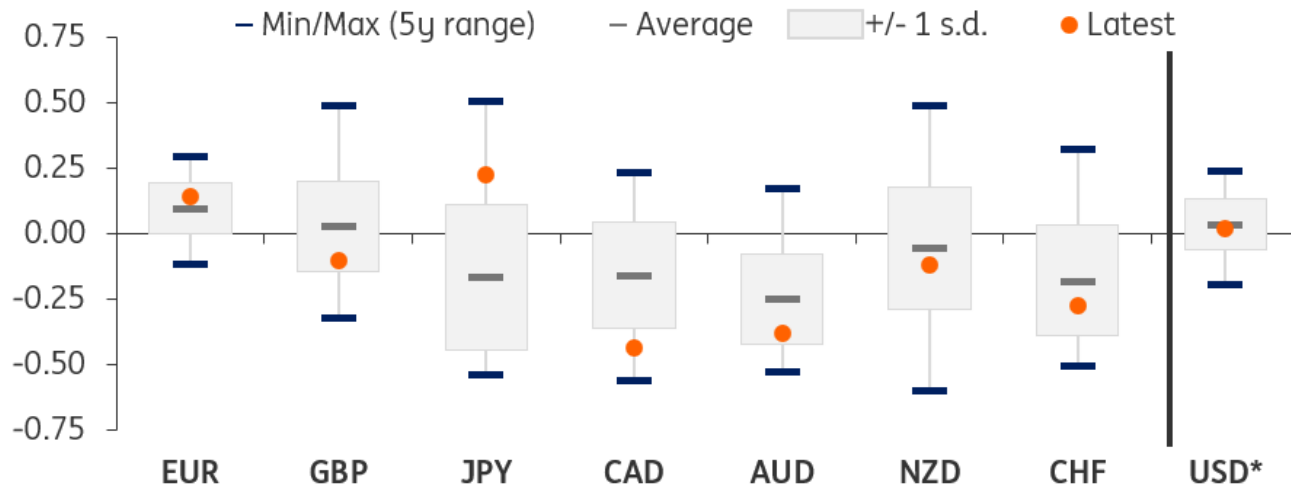
	Q4 25	Q1 26	Q2 26	2027
DXY Dollar Sept25	96.4	96.2	95.3	93.4
DXY Dollar June25	97.4	96.6	95.9	92.8
EURUSD Sept25	1.19	1.20	1.20	1.22
EURUSD June25	1.17	1.17	1.18	1.20
USDJPY Sept25	143	140	140	130
USDJPY June25	140	139	138	130
GBPUSD Sept25	1.37	1.37	1.38	1.40
GBPUSD June25	1.36	1.37	1.37	1.40
USDCHF Sept25	0.80	0.80	0.80	0.82
USDCHF June25	.81	.82	.81	.82

Bloomberg

G10 positioning: EUR/USD in moderate net-long territory

CFTC data show speculative USD shorts aren't extreme

Speculative positioning (% of open interest)



Currency (USD base)	Latest net positioning	YTD Change	QTD Change
EUR	+14%	+26%	0%
GBP	-10%	-21%	-30%
JPY	+22%	+26%	-20%
CAD	-44%	+6%	-17%
AUD	-38%	+1%	+10%
NZD	-12%	+43%	-19%
CHF	-28%	+9%	+3%

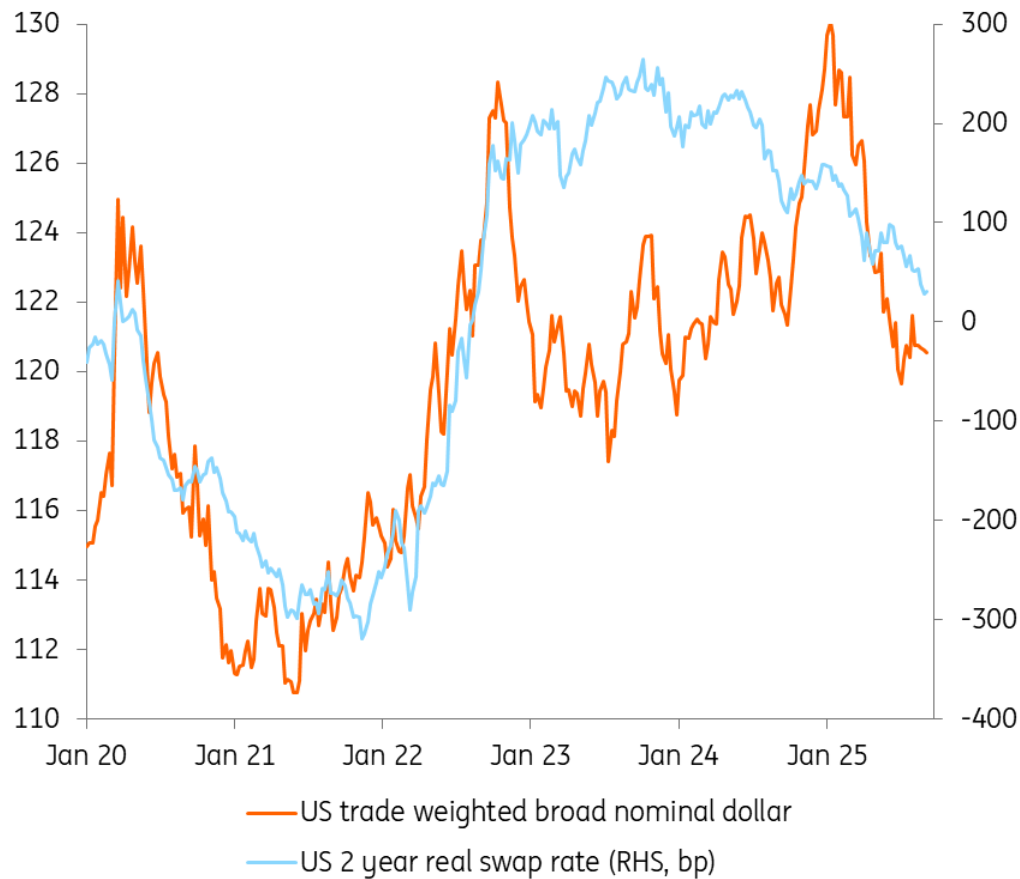
*Note: Aggregate USD positioning versus G10 FX. As of 09 Sep 2025 (data reported with a lag).

- Positioning remains in net-long territory for EUR/USD, but at 14% of open interest it's far from stretched
- Speculative investors remain short commodity currencies
- Aggregate USD positioning versus reported G10 currencies is at its 5-year average

Real interest rates will become increasingly influential

Pressure on Fed independence will question whether policy will become too loose, too quickly

US two-year real rates versus DXY dollar index



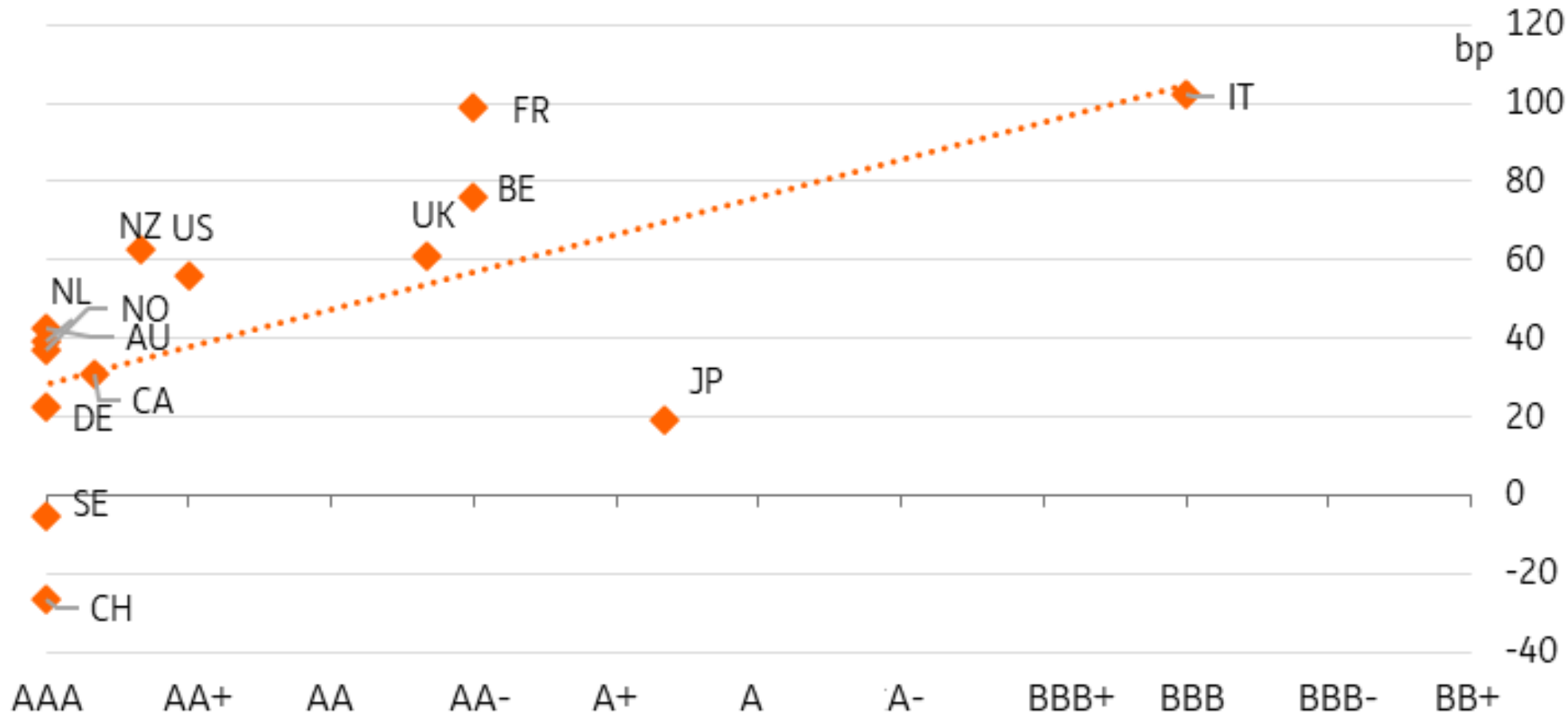
USD 5Y5Y inflation forward swap ... contained so far



Sovereign risk starting to play a role in FX pricing?

FX price action in September occasionally suggested sovereign debt differentiation at work

10Y OIS-spread versus average rating (Moody's, S&P, Fitch)

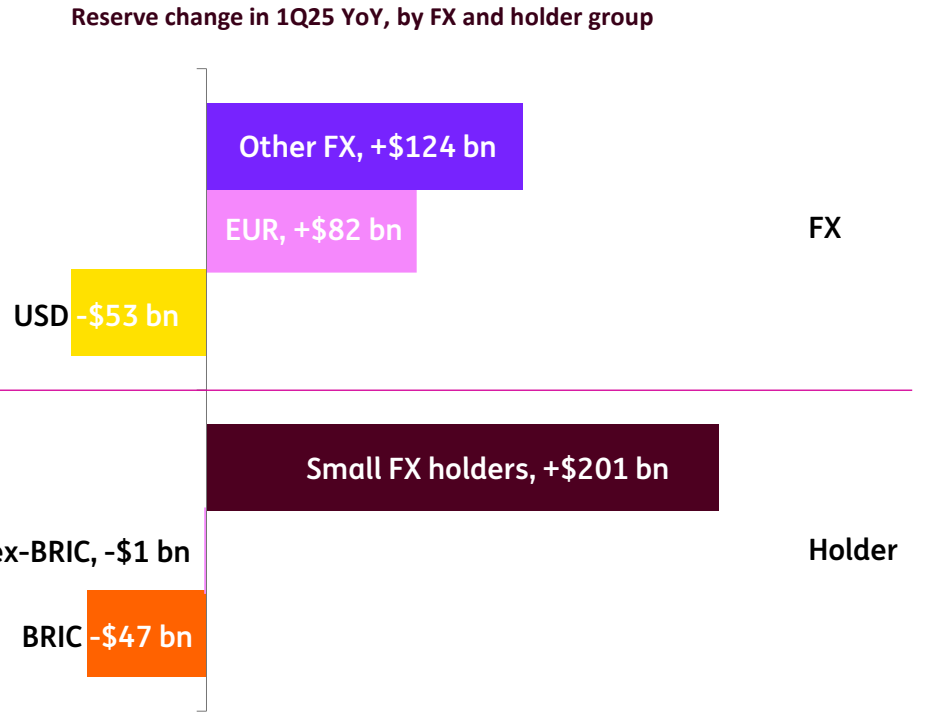
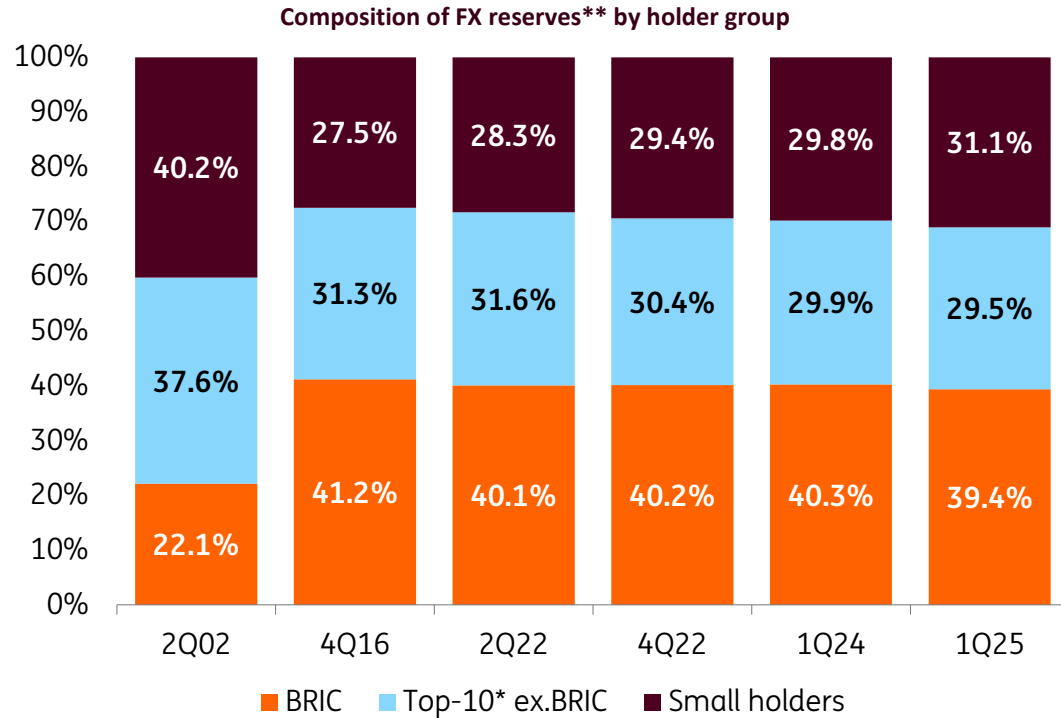


ING, Refinitiv

Smaller reserve holders are showing appetite for non-USD

Smaller FX holders are gaining importance...

..and seem to be joining in on the de-dollarization trend



Sources IMF, CEIC ING; *Top-10 FX reserve holders control 69% of world total and include China (including Hong-Kong and Macao), Japan, Switzerland, Taiwan, India, Saudi Arabia, Russia, Korea, Singapore, and Brazil; ** historical dates chosen based on similarity in USD exchange rates to core currencies

- **The longer-term trend is still positive for non-USD assets:** Year-on-year, dollar reserves are still down (-\$53bn, -1.2pp) while euro is up (+€71bn, +0.4pp), keeping the longer-term diversification story intact. Recent US tariff hike targets primarily Top FX holders Brazil, India, China, and Switzerland
- Recent US tariff hike targets primarily **Top FX holders Brazil, India, China, and Switzerland** that control over 40% of global FX reserves and can diversify their reserves.
- **New demand drivers and watch factors:** Smaller FX reserve holders – growing in global weight – are showing higher appetite for non-dollar assets, potentially making them a key source of future demand for the euro. Previously only top holders were seen as capable of diversification.

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Questions for discussion

1. Why is the **dollar not weakening more**?
2. Will **debt sustainability** become a dominant theme in FX?
3. Will FX diversification be directed more into **gold** or **other precious metals**?
4. Will **EM carry theme** continue in Q4?
5. What are the possible **tails risks** for Q4?
6. What are the underlying factors behind **USD/JPY forecast** pointing to a weaker yen compared to June survey results?
7. What are your **views on the CNY** going forward as its role increases both in terms of international trade and FX reserves?