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The Fed Faces A Problem

The FX Markets In Q2

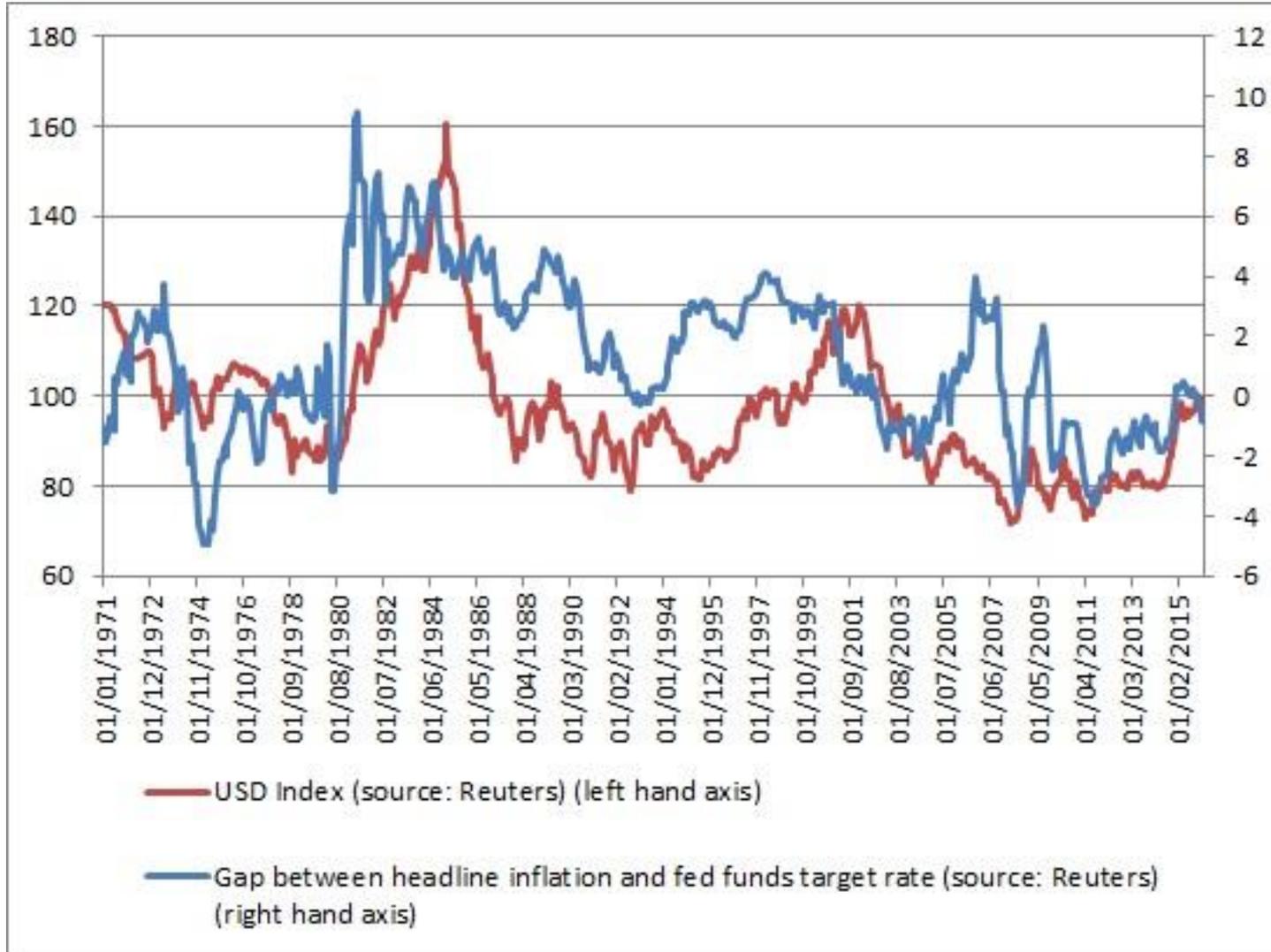
Simon Derrick

Chief Currency Strategist

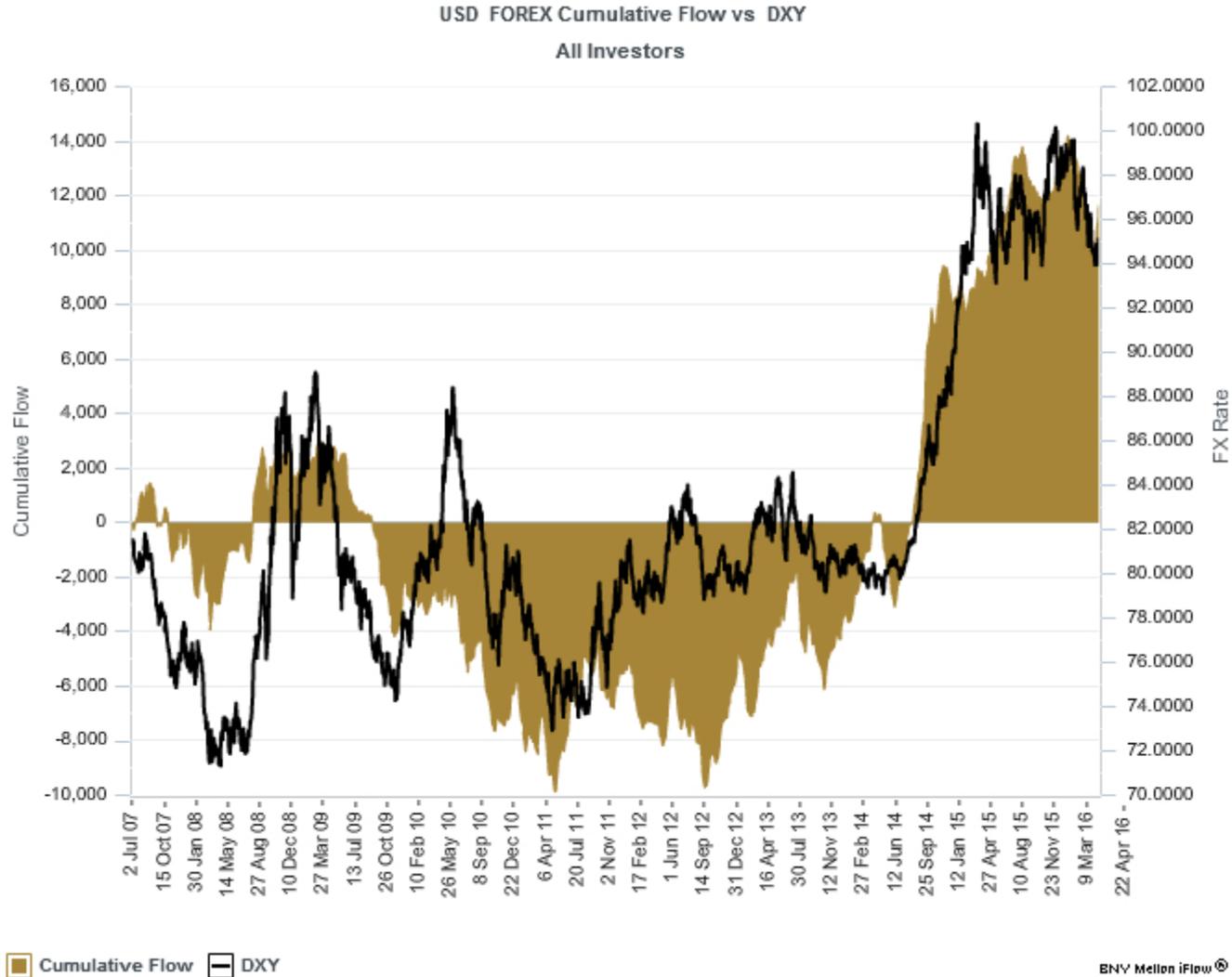
Q2 2016



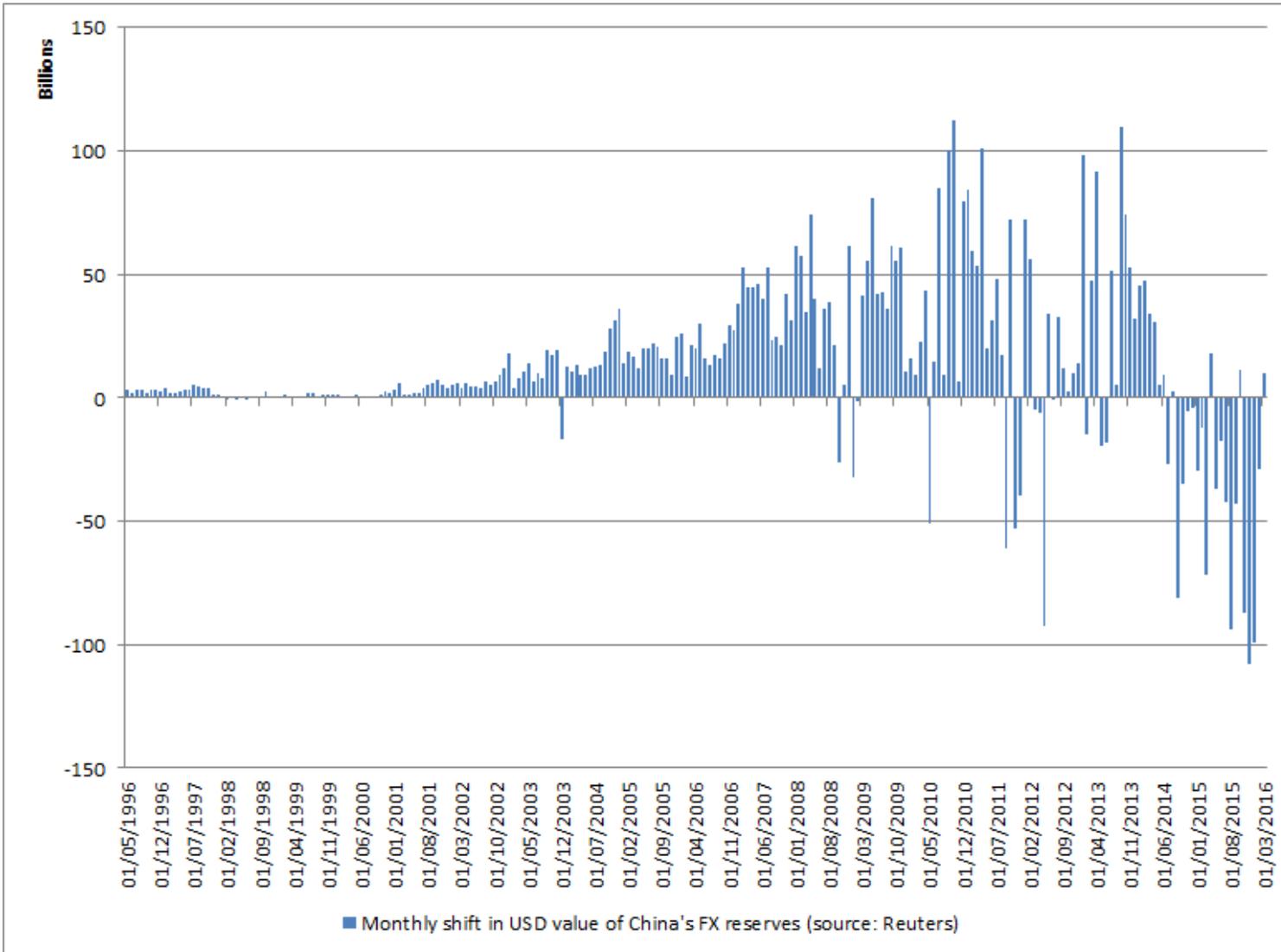
The USD



USD Demand Surges



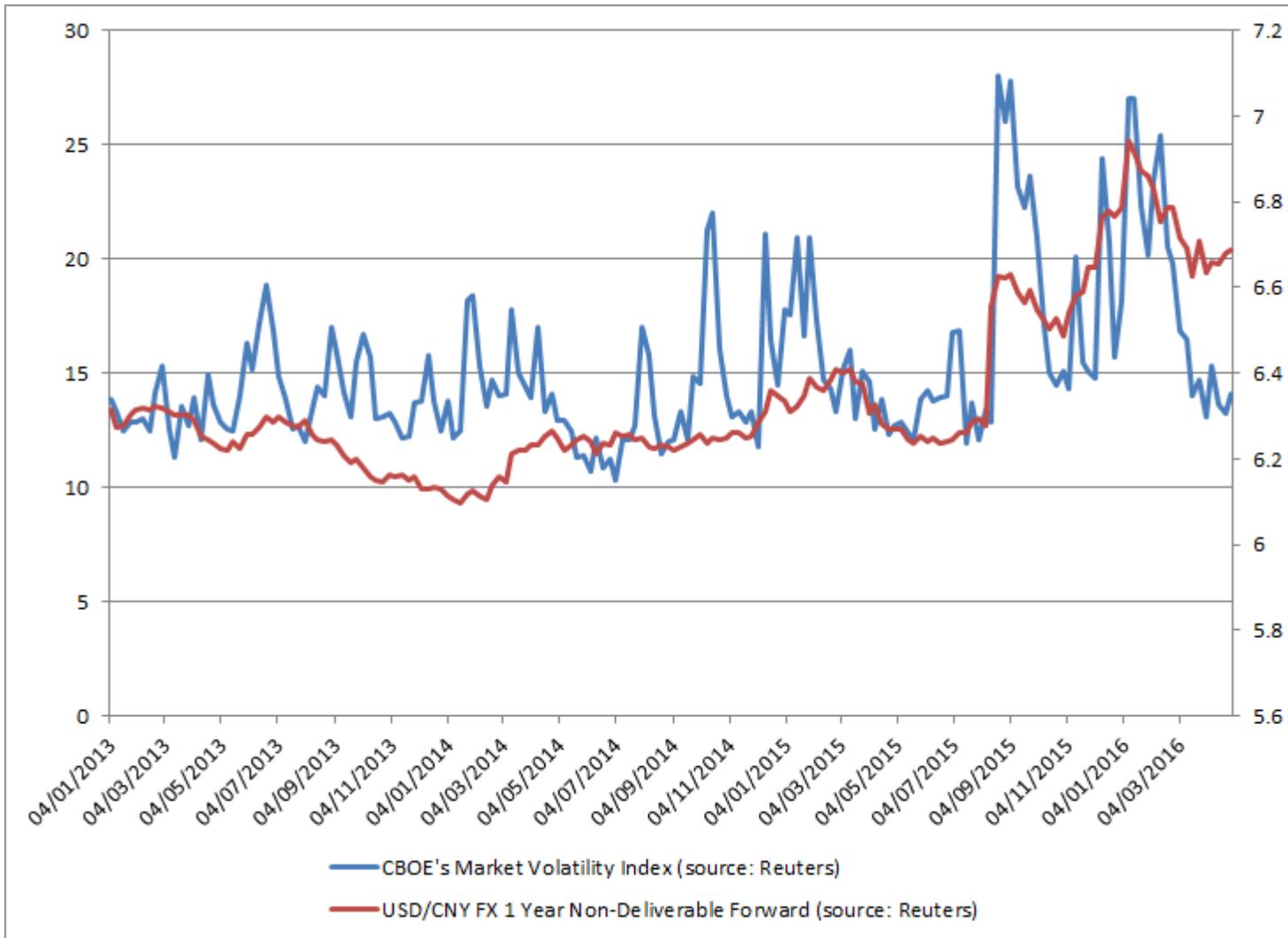
Chinese FX Reserves



June 2014: A Key Turning Point For Oil



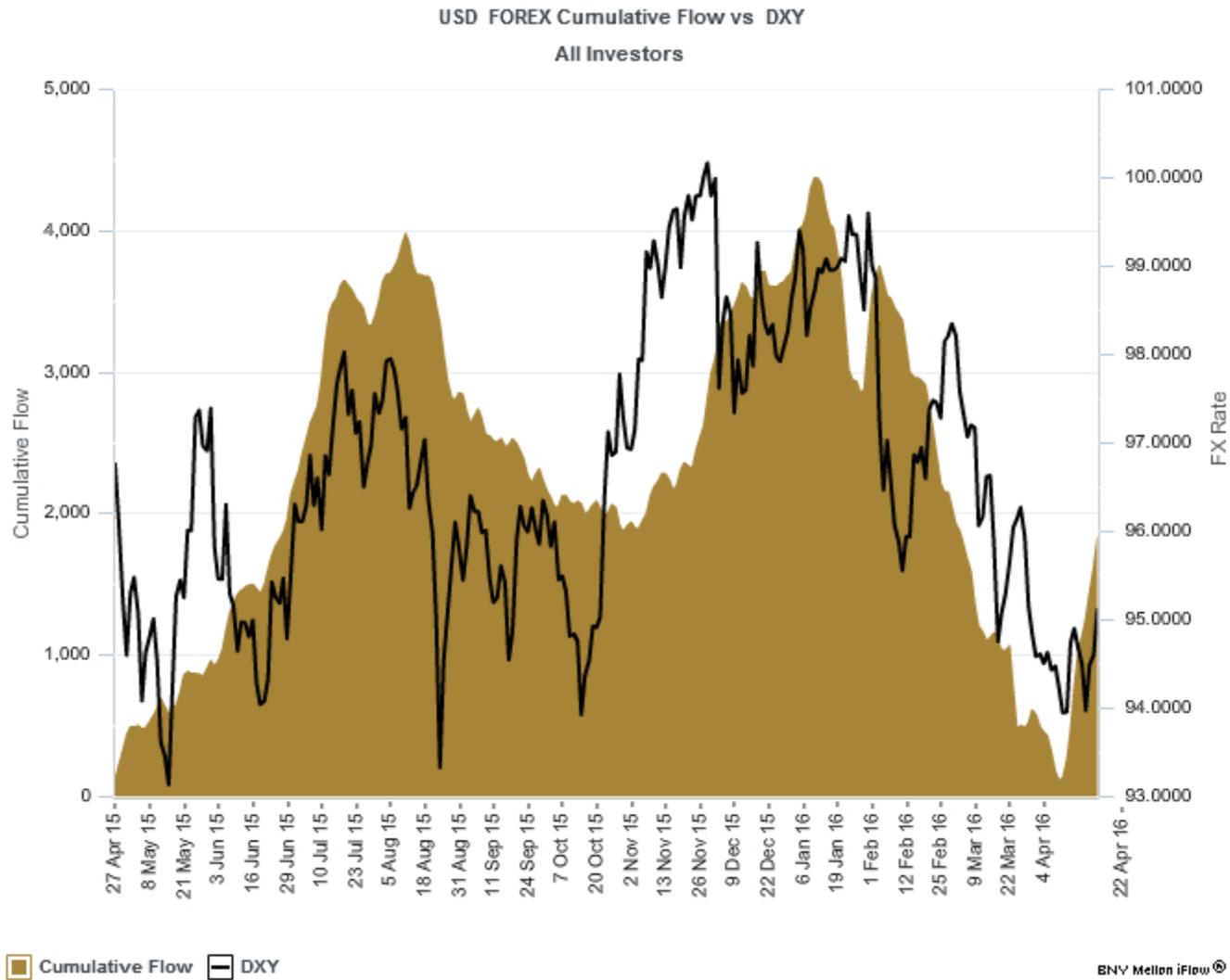
Impact On The Investment Environment



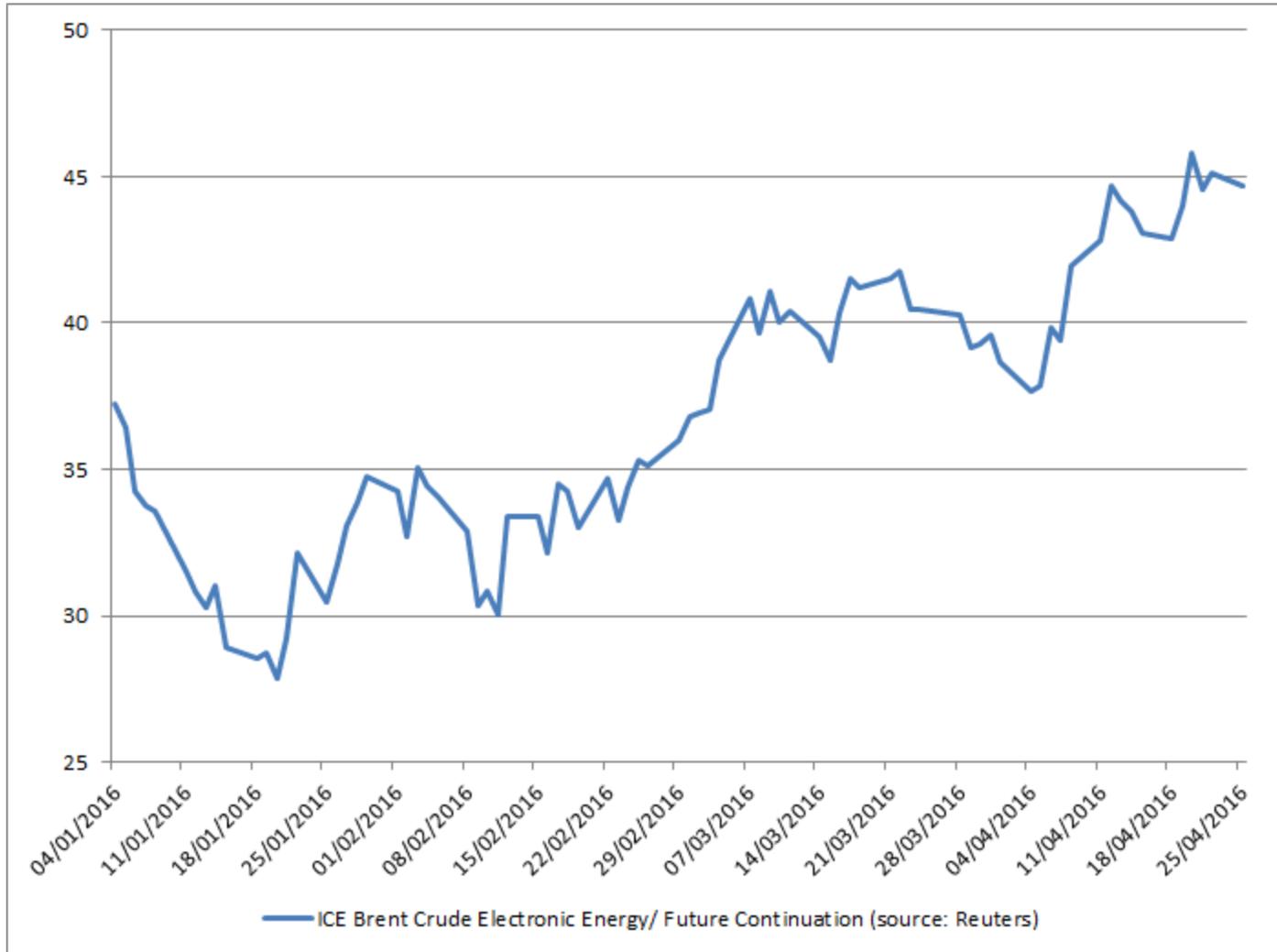
Volatility Rising

- On January 15 2015 the Swiss National Bank (SNB) announced it was discontinuing its minimum exchange rate policy(http://www.snb.ch/en/mmr/reference/pre_20150115/source/pre_20150115.en.pdf)
- Not a unique event
 - In 1982 the bank abandoned its target range for the Swiss franc/Deutsche mark exchange rate (<http://www.bostonfed.org/economic/conf/monetary-fiscal-topics-2011/papers/gerlach.pdf>)
 - In 1992 the Bank of England discontinued its support of GBP within the Exchange Rate Mechanism in the middle of the trading week (<http://www.theguardian.com/business/2012/sep/13/black-wednesday-20-years-pound-erm>)
- Not the only event since start of 2015 to generate high volatility in the currency markets.
 - Six days over the past eighteen months have featured in the top one percent most volatile days for the USD index since the Nixon shock in 1971.

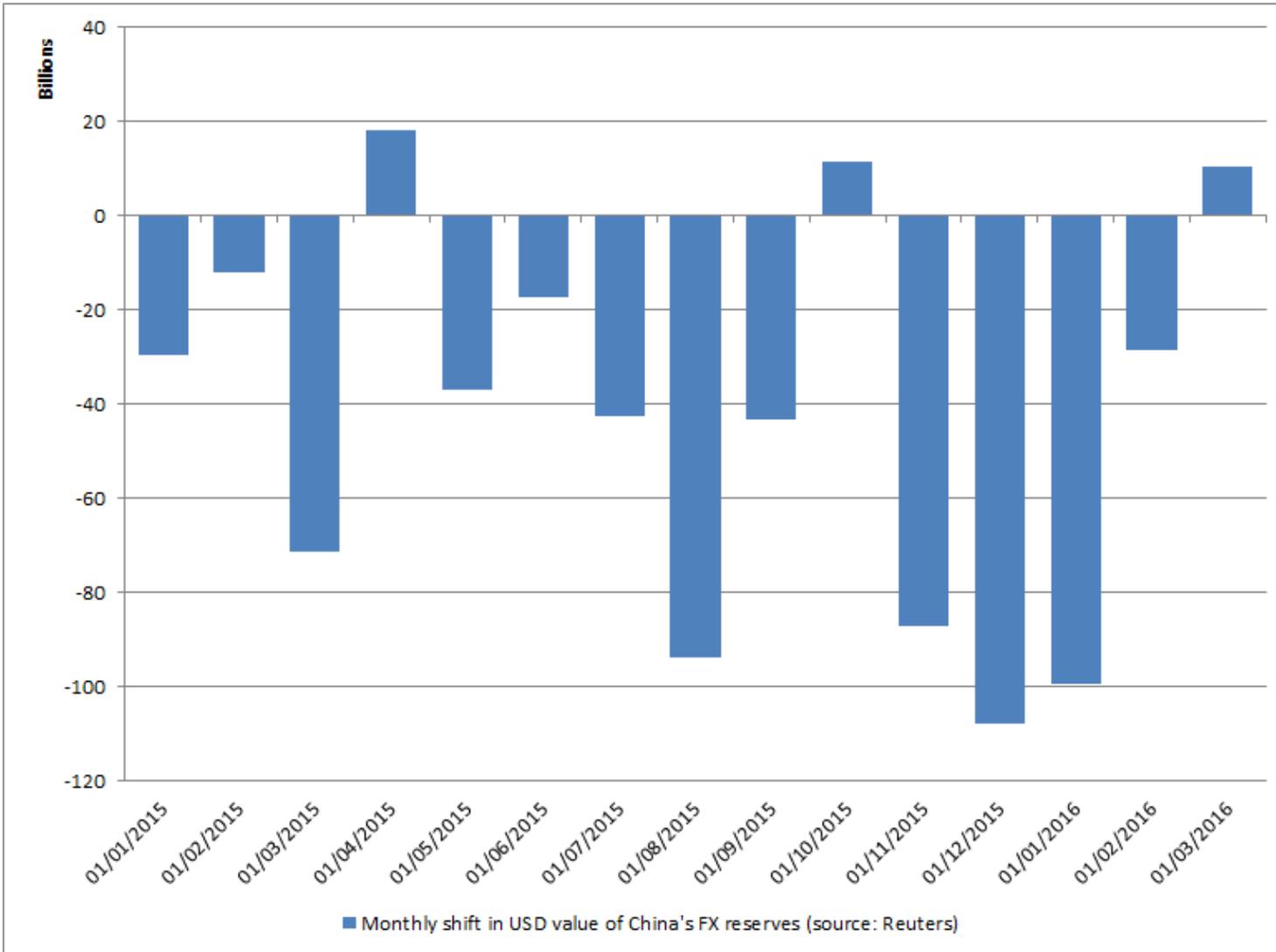
What Happened Next



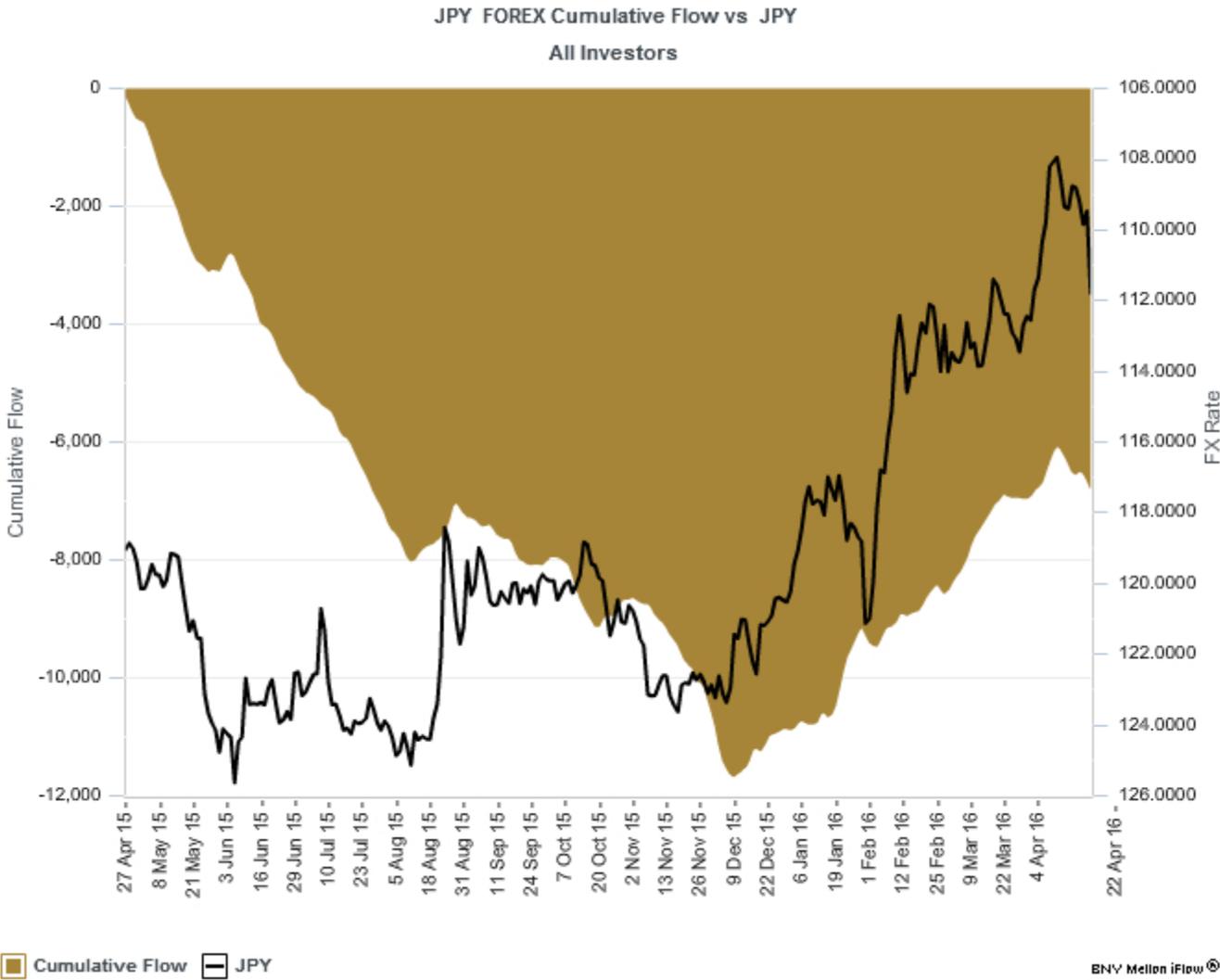
Oil



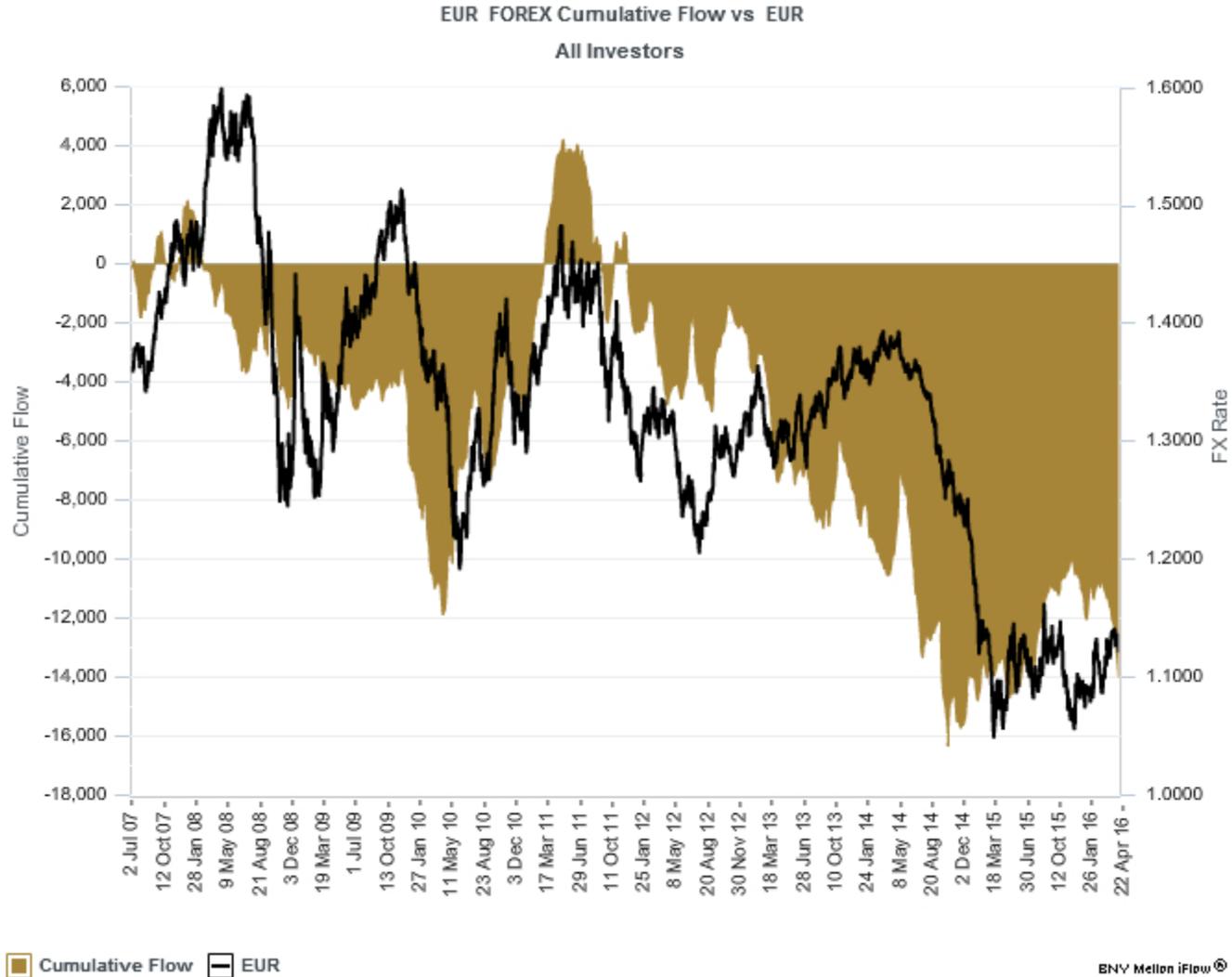
Chinese FX Reserves



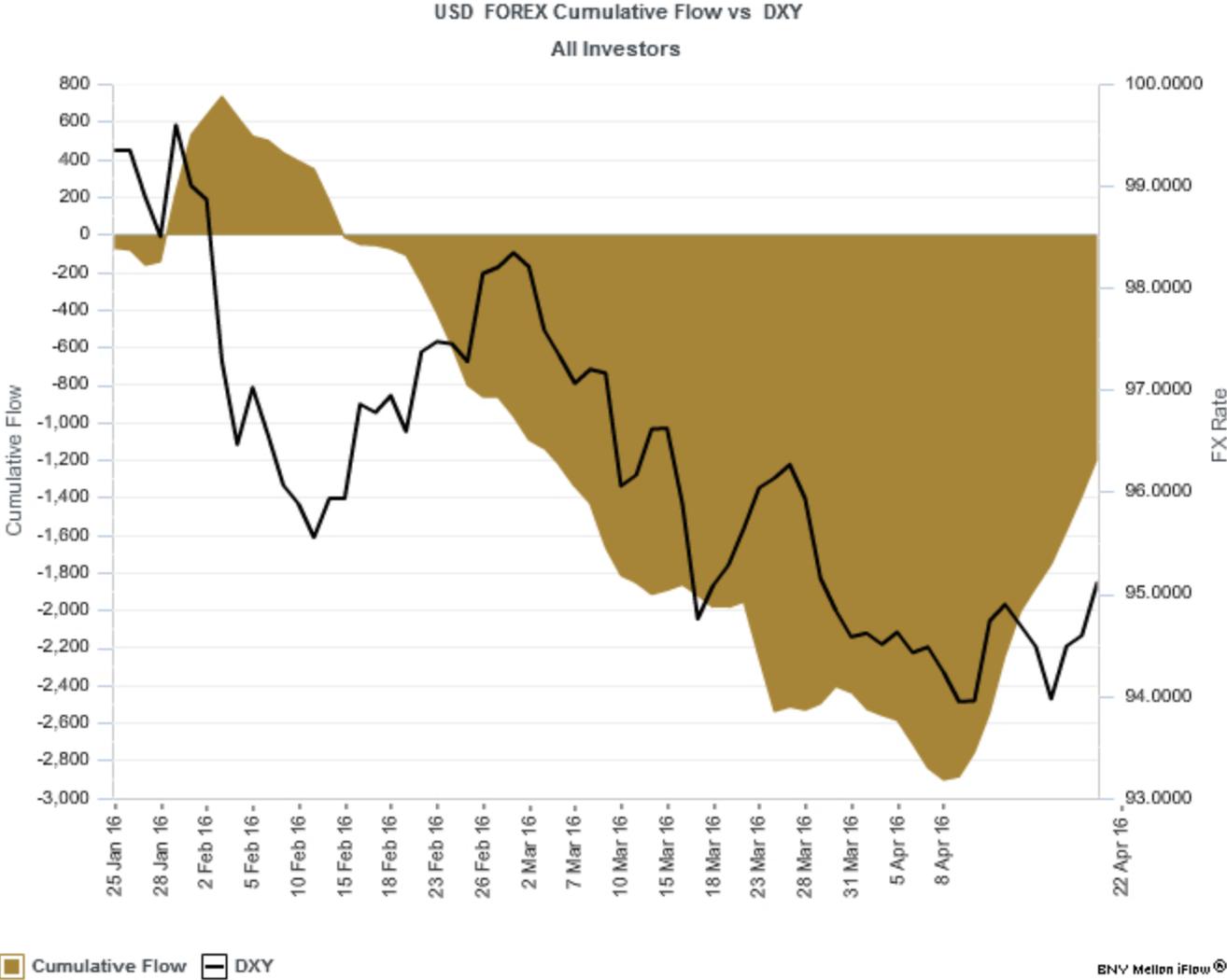
2016: The Dynamic Changes For The JPY



An Early Warning For The EUR?



The FOMC Faces A Conundrum



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