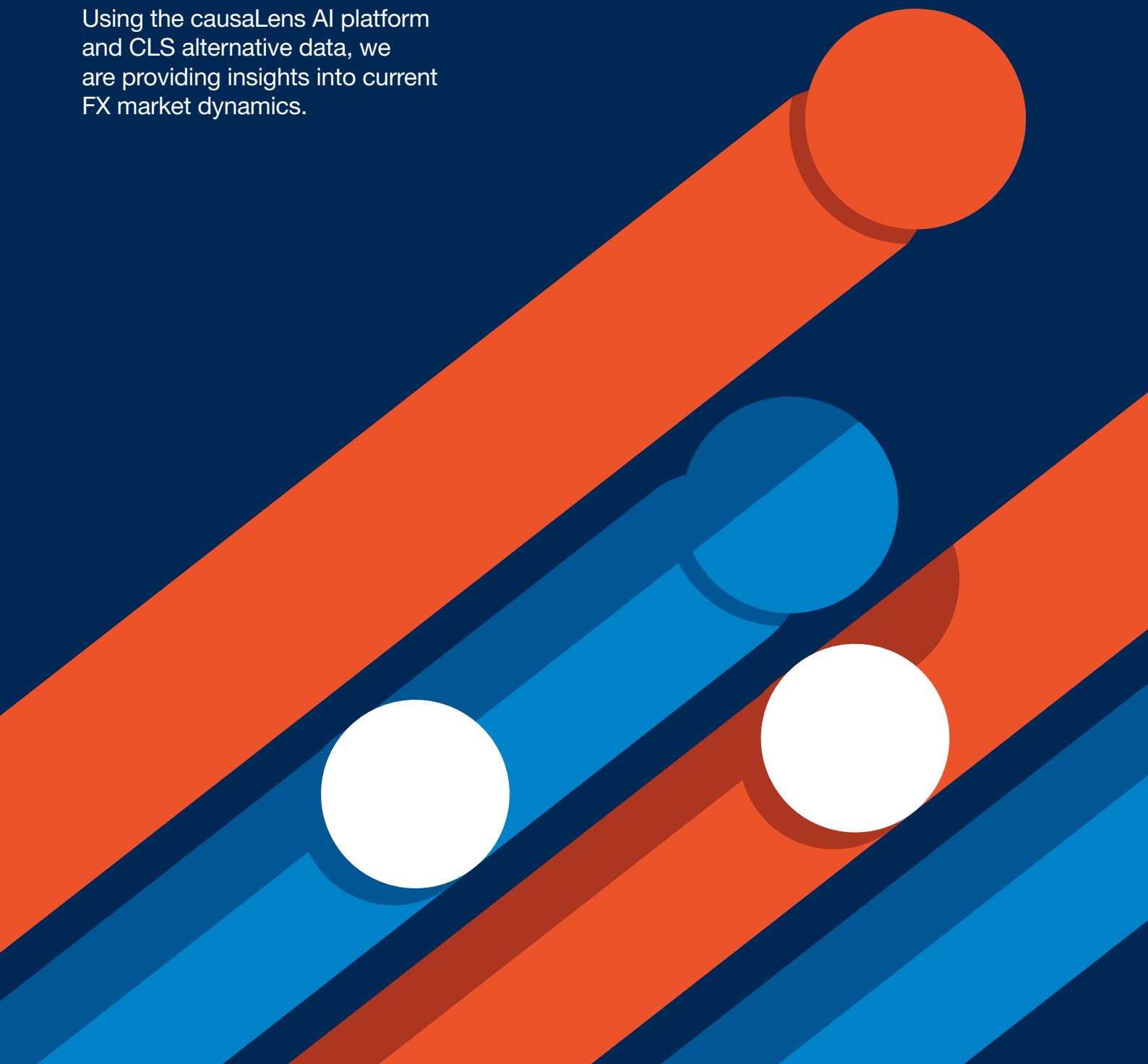


What is driving EUR/USD corporate trading volume?

Using the causalLens AI platform
and CLS alternative data, we
are providing insights into current
FX market dynamics.



Adjusting currency hedging is one of the most critical decisions facing CFOs, and strategies often hinge on understanding the changes in factors potentially impacting FX volumes.

Banks that execute hedging decisions need to understand the continuously changing market conditions to achieve best execution. Due to Covid-19 and the subsequent market turbulence, this task has become increasingly challenging.

Using CLS's FX Spot Flow dataset the causaLens AI Platform examined the macroeconomic factors associated with corporate EUR/USD transactions.

Methodology:

Having warehoused the details of over 1 billion trades across the 18 currencies, we have created the largest single source of FX executed trade data available to the market. We provided causaLens with access to our FX Spot Flow data which captures the volume purchased and sold, as well as the number of trades executed within the market.

causaLens's AI Platform processes a variety of economic factors and carries out predictive signal discovery at scale. In this instance, past and present data points of economic factors were closely examined to discover predictive variables for EUR/USD trading volume by corporates.

For this analysis, the causaLens AI Platform processed EUR/USD volumes in CLS FX Spot Flow data by counterparty category (corporates, funds and non-bank financials) together with a variety of daily macroeconomic indicators. Each data point was then examined at scale for predictive signal discovery to identify specific primary macroeconomic factors having a significant predictive relationship with corporates' EUR/USD trading volumes. This exercise was repeated for pre- and post-Covid-19 spreads. To ensure a fair comparison and to account for seasonality, we compared data from January to April for 2019 and 2020.

Results:

We found that before the emergence of Covid-19, one of the key factors associated with EUR/USD trading volumes by corporates was the TED spread – an indicator of perceived economic and credit risk (chart 1).

Interestingly, we discovered that during the Covid-19 crisis the picture was almost inverted, i.e. the TED spread is no longer a significant factor associated with corporate FX trading volumes (chart 2).

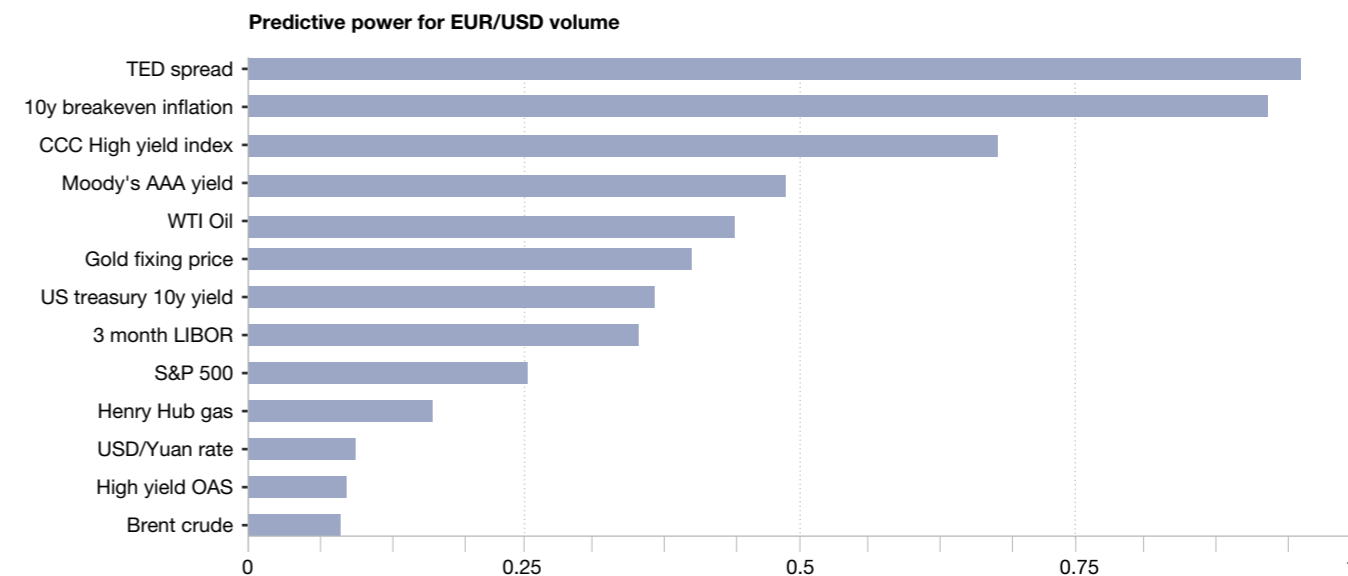
One of the key factors associated with EUR/USD volumes traded by corporates was the TED spread.

Before Covid-19

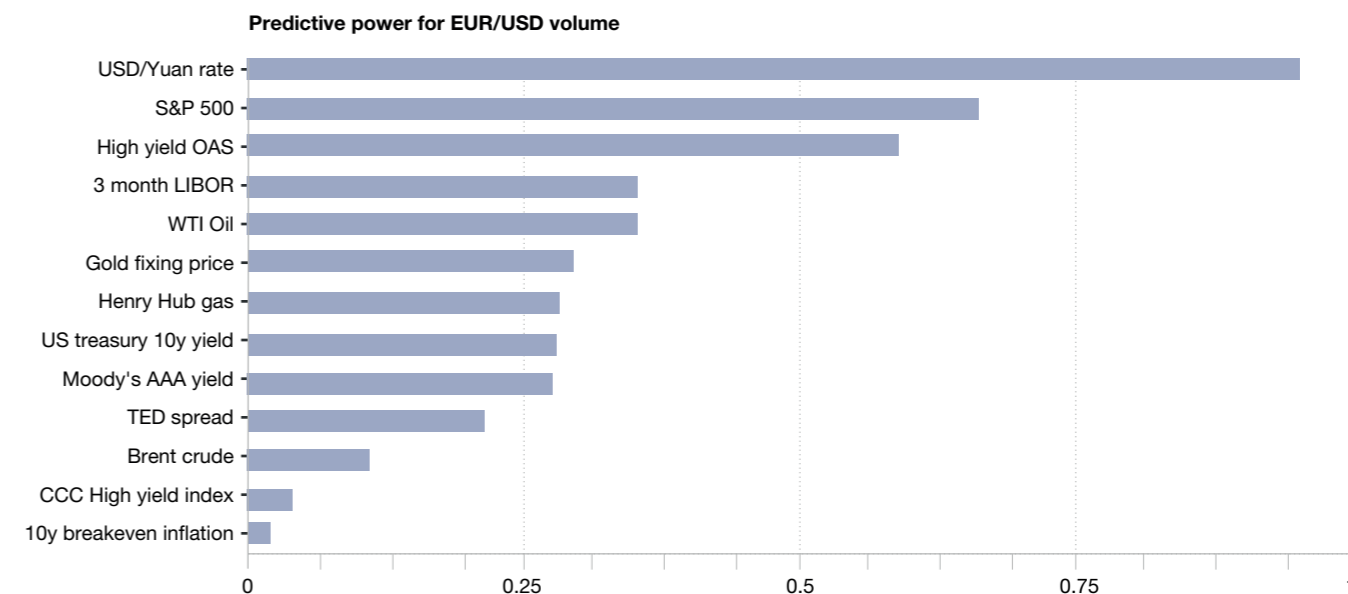
During Covid-19

TED spread is no longer a significant factor associated with corporate FX trading volumes.

1. Macroeconomic factors and the predictive correlation with corporate EUR/USD transactions (January to April 2019)



2. Macroeconomic factors and the predictive correlation with corporate EUR/USD transactions (January to April 2020)



Conversely, the results for 2020 indicate that the USD/Yuan rate became the most significant factor associated with the trading volume of EUR/USD for corporates. This suggests that models including the USD/Yuan rate as a variable have greater predictive power for EUR/USD volume than those without.

Using the findings, CFOs and treasurers at corporates can review their hedging strategies in light of their exposures to the corresponding currencies. Market participants can also use the analysis to help evolve trading strategies that need to reflect changes in market dynamics resulting from Covid-19.

Background on data:

Since its launch in 2002, CLS has warehoused the details of every trade by instrument (swap, spot, outright forward) for the 18 currencies it settles across 33 major currency pairs, creating the largest single aggregated source of FX executed trade data available to the market.



Background on the causaLens AI platform:

*causaLens is pioneering a completely new approach to time-series prediction. Almost all current machine learning approaches, including AutoML solutions, severely overfit on time-series problems and therefore fail to unlock the true potential of AI for the enterprise. causaLens was founded with the mission to devise Causal AI, which does not overfit, and so provides far more reliable and accurate predictions. The platform also includes capabilities such as autonomous data cleaning and searching, autonomous model discovery and end-to-end streaming productization.**

* Source: causaLens website



Settlement



Processing



Data

CLS helps clients navigate the changing FX marketplace – reducing risk and creating efficiencies. Our extensive network and deep market intelligence enable CLS specialists to lead the development of standardized solutions to real market problems. Our innovative, forward-looking products make the trading process faster, easier, safer and more cost-effective – empowering our clients' success.

For more information please email data@cls-services.com

London
Hong Kong
Tokyo

New York
New Jersey

info@cls-group.com
cls-group.com