

Throughout 2022, the major currencies became closely correlated as the US dominated market movements. This was driven by the Fed's tightening of monetary policy, with other countries following suit. We can see in the chart below, the USD strengthened against all major currencies and as a result there were limited movements in cross currencies. By cross currencies, we mean any pair not quoted against the USD such as, EUR/CAD, EUR/GBP, EUR/AUD and AUD/JPY. The correlations with the USD peaked in early 2023 and are starting to breakdown.

Normalized As Of 06/13/2022

Currency Pair	Last Price
USDAUD BGN Currency	102.7265
USDEUR BGN Currency	96.834
USDGBP BGN Currency	96.4734
USDCAD BGN Currency	103.467
USDJPY BGN Currency	103.6602
USDCNY BGN Currency	105.5651

Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

2022 2023

95 100 105 110 115

105.5651
103.6606
102.7269
96.834
96.4734

Spot currencies of EUR, GBP, CAD, JPY, CNY and AUD against the USD over the last year. Movements use a base of 100 as of a year ago and a movement higher denotes a stronger USD.

ANALYSIS

The top section of this chart shows percentage movement in EUR/USD and CAD/USD over the last 5 years (base 100). The bottom pane shows a rolling 90-day correlation, which peaked at the start of 2023 and is trending lower.



The top section of this chart shows percentage movement in EUR/USD and AUD/USD over the last 5 years (base 100). The bottom pane shows a rolling 90-day correlation, which peaked at the start of 2023 and is trending lower.



The top section of this chart shows percentage movement in JPY/USD and AUD/USD over the last 5 years (base 100). The bottom pane shows rolling 90-day correlation, which peaked at the start of 2023 and is trending lower.



The top section of this chart shows percentage movement in EUR/USD and GBP/USD over the last 5 years (base 100). The bottom pane shows rolling 90-day correlation. The correlation of these pairs is traditionally high but, history includes Brexit negotiations. Correlation has moved lower in 2023.



Implied (market traded) 3-month volatility in EUR/GBP over the last 5 years. The high correlation between EUR and GBP and lower volatility in EUR/USD and GBP/USD translate in a low volatility, which make buying options an appealing hedge.



In the months ahead more movement in cross currencies is expected, so please pay close attention to any open exposures. If you have exposures in any of the cross currencies, make sure you pay attention to your hedges closely. If you do any kind of triangulation on exposures this may be a time to revisit that process, given how the currency movement has significantly detached from just following the USD trend.

If you would like any analysis of your individual exposures and currencies, please contact your Account Executive at GPS or [visit our website](#).

This document is for information purposes only and does not constitute any recommendation or solicitation to any person to enter into any transaction or adopt any trading strategy, nor does it constitute any prediction of likely future movements in exchange rates or prices or any representation that any such future movements will not exceed those shown on any illustration. All exchange rates and figures appearing are for illustrative purposes only. You are advised to make your own independent judgment with respect to any matter contained herein.