

FX commentary

An overview of G10 equity betas

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EUR/USD equity beta at multi-year high

- Yesterday saw the biggest stock market rally this year, led by a strong performance in financials. This naturally spilled over to the FX market where we still see a very high correlation with equity markets. Given the high volatility in equities it is worth taking a look at the current FX betas (table below):
- AUD & NZD: Both AUD/USD and NZD/USD remain the main G10 currency pairs with highest sensitivity to equity markets – and betas have risen in recent months. This partly explains why AUD is sometimes referred to as a ‘fast’ EUR.
- CHF & JPY: Both the defensive currencies have had their safe-haven status questioned in recent months – for CHF most likely due to an aggressive SNB and for JPY most likely due to poor domestic economic data. The equity beta has fallen for JPY and correlations have fallen for both in recent months. While CHF weakened yesterday, JPY was more resilient, emphasising its current decoupling with risk.
- EUR/USD: Both the EUR/USD beta and correlation stand close to a multi-year high. The high beta is not self-explanatory though and if driven largely by deleveraging flows (as we suspect), then the beta should fall markedly in an upwards trending equity market. That is, expect smaller co-movements during ‘good times’.
- Scandies: Betas have risen strongly, suggesting that while currency specific themes remain key, market risk sentiment has become an increasingly important driver.

Beta and correlation coefficient with S&P500 (1-day returns ; 60-day rolling window)

	AUD/USD	NZD/USD	EUR/USD	EUR/CHF	USD/JPY	EUR/GBP	EUR/NOK	USD/CAD	EUR/SEK
Beta	0.52	0.47	0.18	0.16	0.13	-0.00	-0.18	-0.26	-0.29
(3M ago)	(0.52)	(0.38)	(0.14)	(0.14)	(0.24)	(-0.03)	(-0.11)	(-0.24)	(-0.11)
Correlation	0.76	0.70	0.42	0.58	0.32	-0.01	-0.35	-0.62	-0.62
(3M ago)	(0.72)	(0.76)	(0.50)	(0.73)	(0.78)	(-0.16)	(-0.45)	(-0.67)	(-0.50)

Source: Danske Bank

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