



Global Investment Research

FX Swaps and Forwards

Dollar Funding of Second-to-Last Resort

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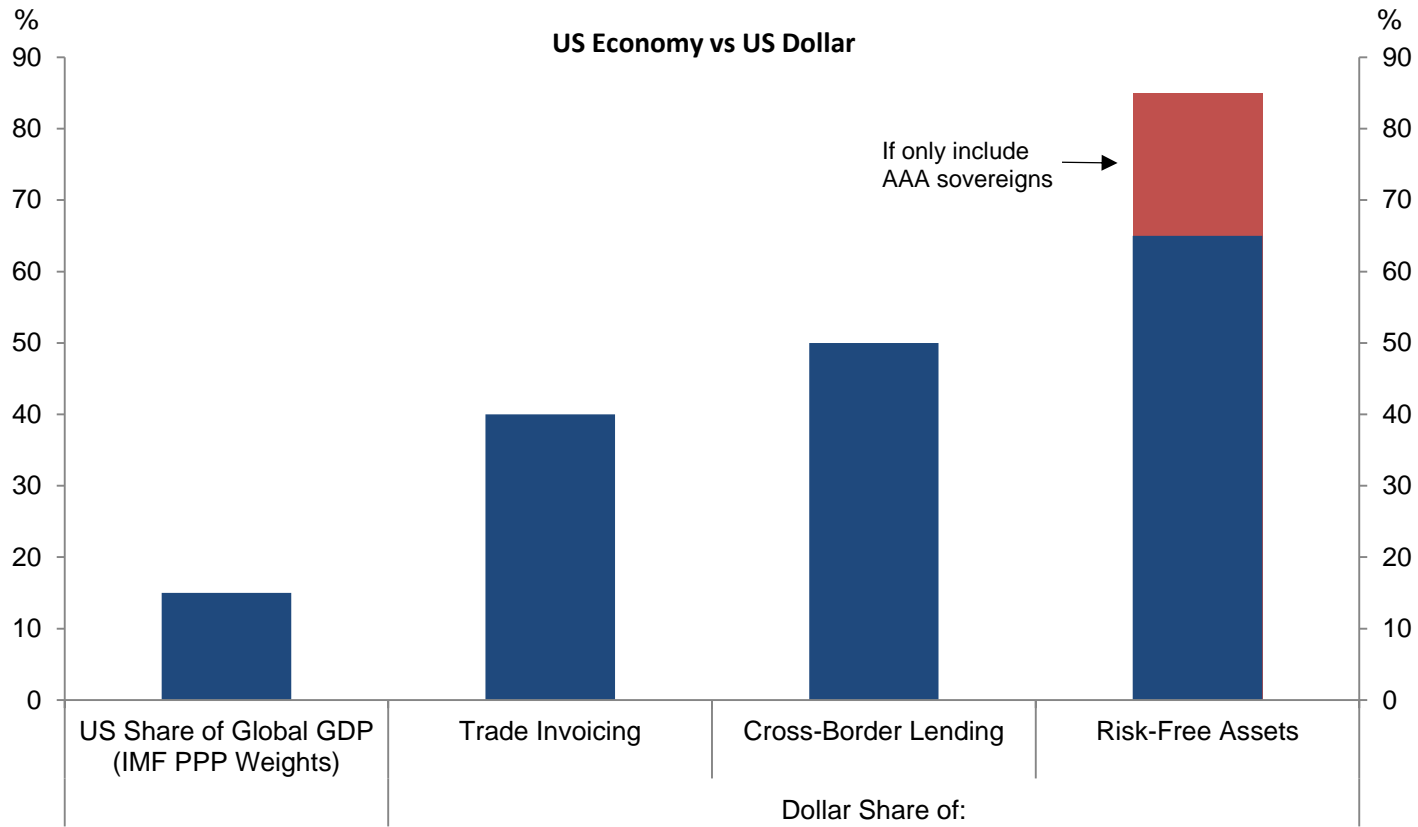
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FX Swaps and Forwards

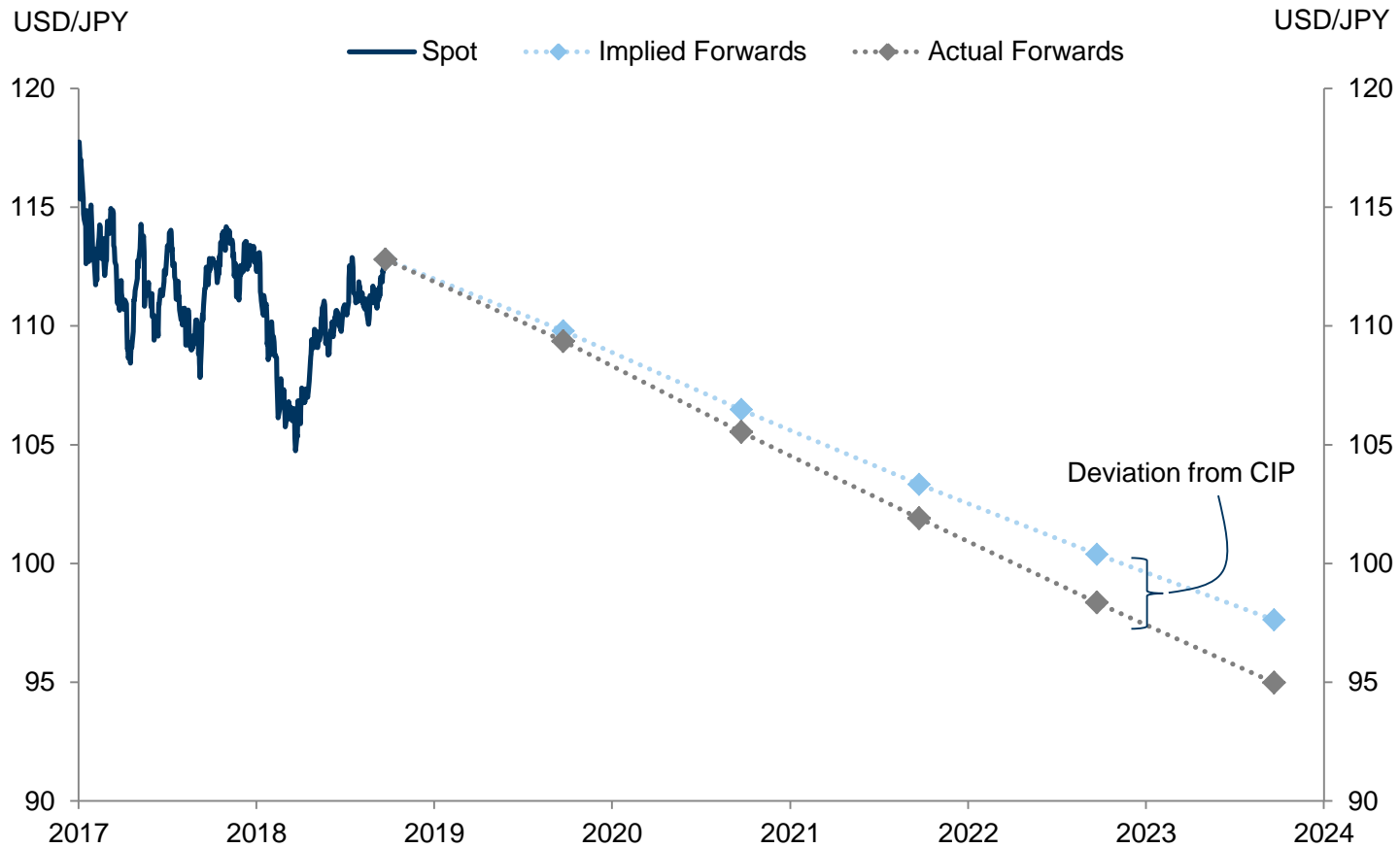
The US Dollar plays a unique role in global trade and finance



Source: IMF, Gopinath (2015), BIS, Bloomberg, Goldman Sachs.

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Foreign exchange markets show deviations from covered interest parity (CIP)



Source: Goldman Sachs.

FX Swaps and Forwards

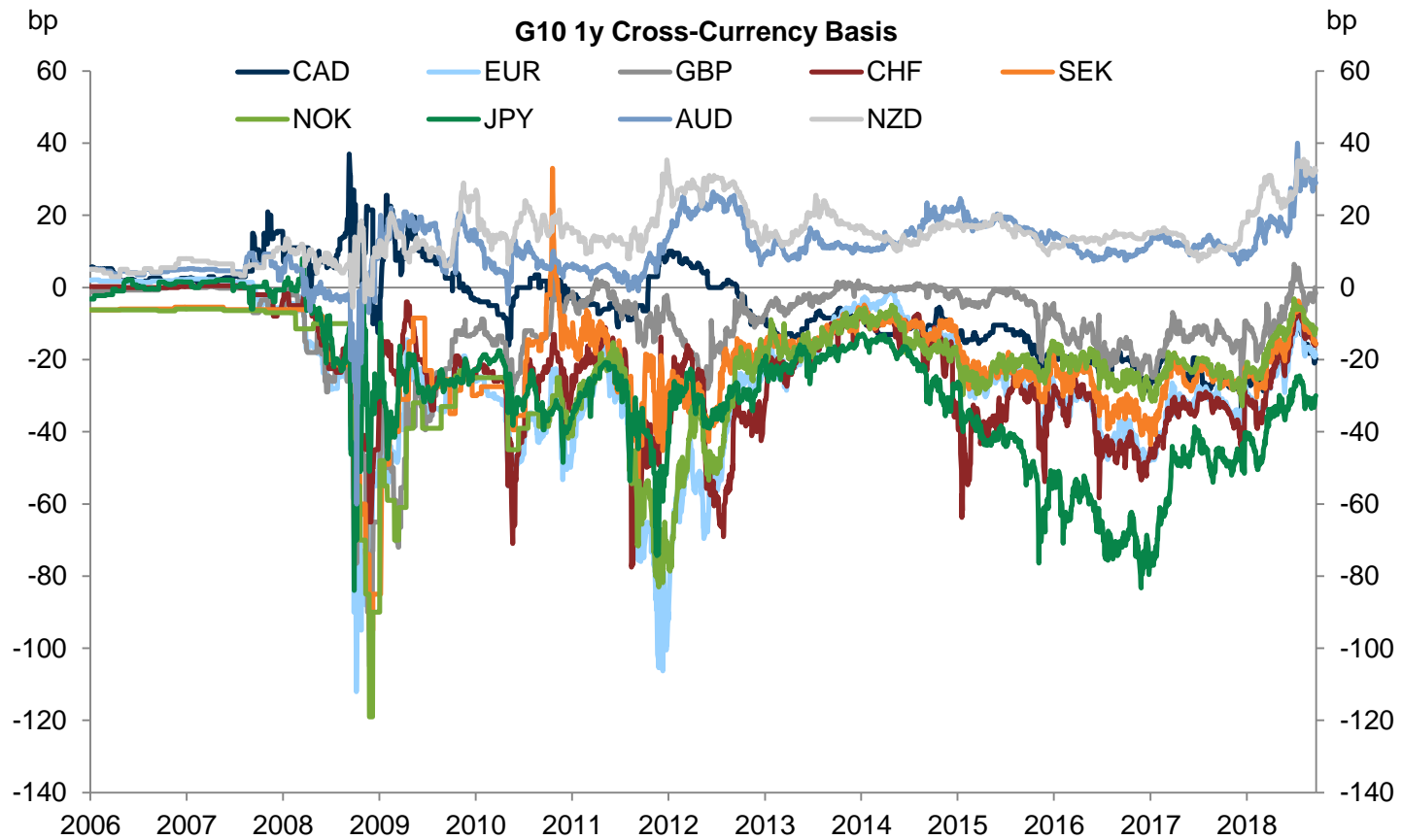
Which means USD borrowing/lending rates differ by jurisdiction



Source: Goldman Sachs.

FX Swaps and Forwards

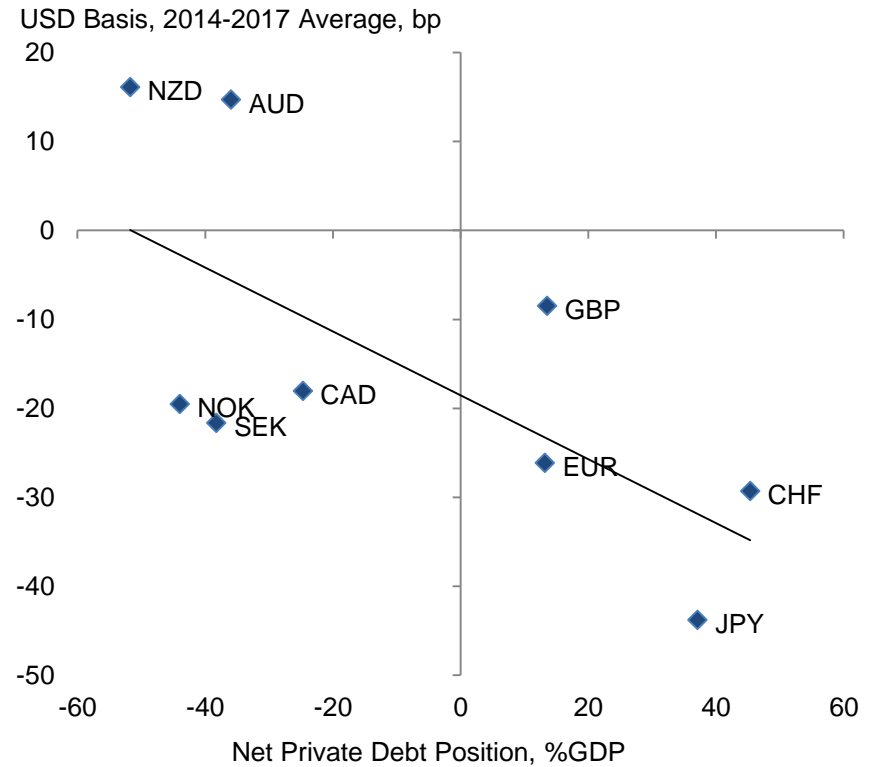
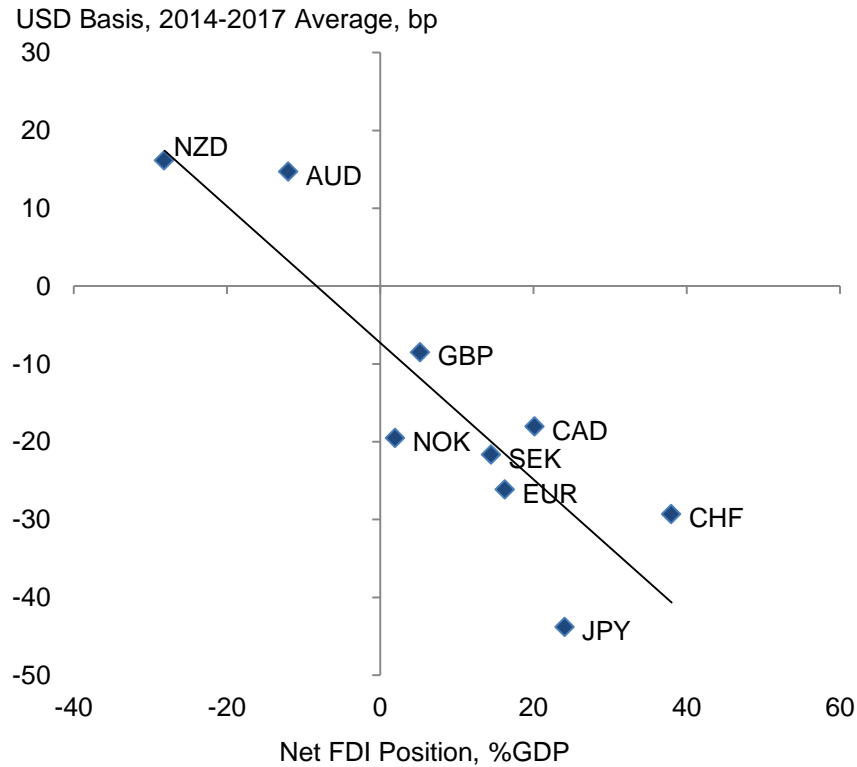
Large and variable CIP deviations over time and across countries



Source: Goldman Sachs.

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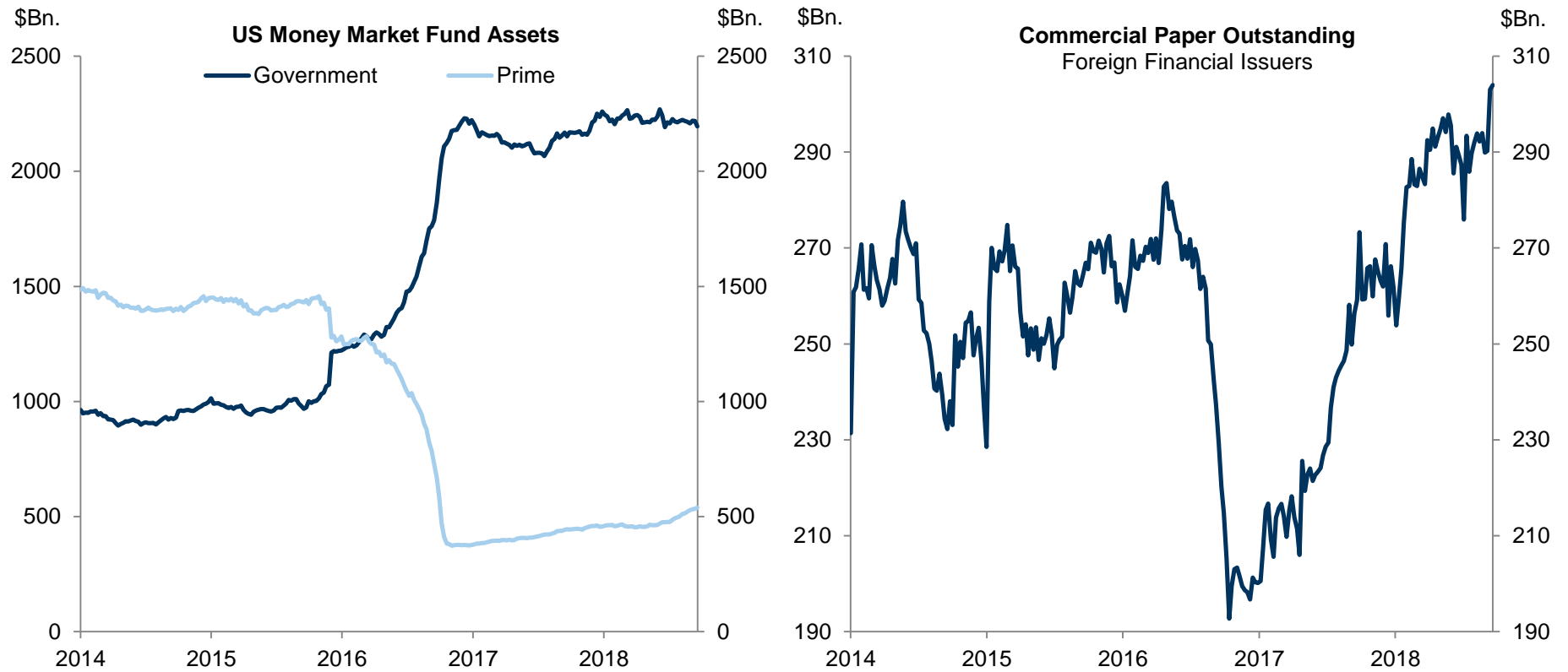
Basis related to private savings imbalance and home bias in deposits



Source: IMF, Goldman Sachs Global Investment Research.

FX Swaps and Forwards

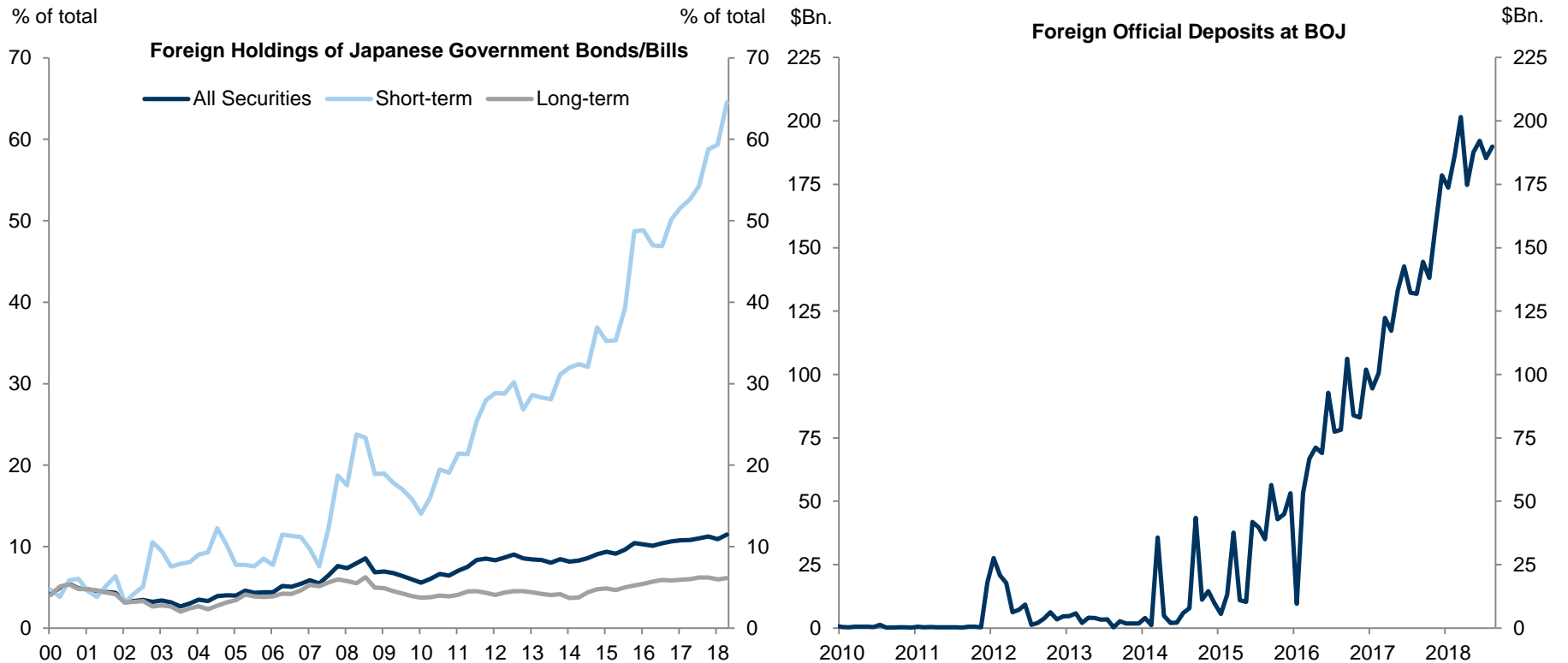
Market slow to adapt to “venue” disruptions



Source: ICI, Federal Reserve, Goldman Sachs.

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Investors increasingly active in Yen basis



Source: ICI, Federal Reserve, Goldman Sachs.

FX Swaps and Forwards

Reserve managers a natural supplier of Dollars

Foreign Currency Assets^(a)

A\$ million, 30 June 2018

Currency	Securities held outright	Securities lent under repurchase agreements	Deposits at official institutions ^(b)	Total (gross)	Forward foreign exchange commitments ^(c)			Total (net)
					Against AUD	Against other currencies ^(c)	Other	
US dollar	9,354	-447	749	9,655	185	14,429	1,890	26,159
Euro	5,953	-550	6,378	11,781	-6,770	3,714	943	9,668
Japanese yen	20,680	0	15,911	36,591	-13,192	-21,040	0	2,360
Canadian dollar	790	0	5	795	0	1,566	0	2,361
Chinese renminbi	1,741	0	611	2,352	0	0	0	2,352
UK pound sterling	837	0	1	838	-1	1,546	0	2,384
South Korean won	2,343	0	9	2,353	0	0	0	2,353
Total	41,698	-997	23,664	64,365	-19,777	215	2,834	47,636

(a) Excludes investments in the Asian Bond Fund

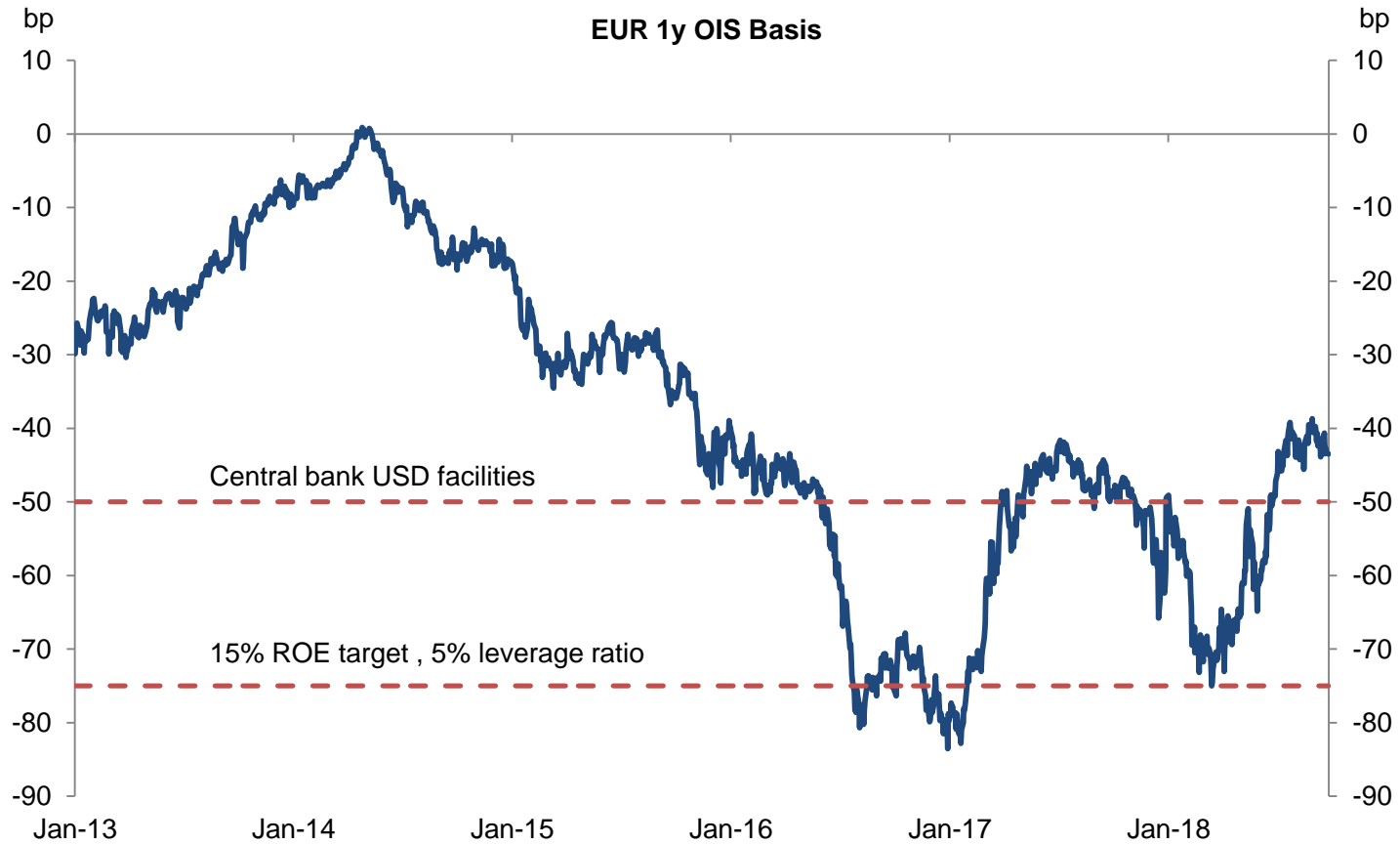
(b) Includes deposits at foreign central banks and the Bank for International Settlements

(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate; other forward commitments largely reflect cash lent under repurchase agreements

Source: RBA.

FX Swaps and Forwards

Many factors limit strict basis arbitrage activity



Source: Bloomberg, Goldman Sachs.

Reg AC

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