DEUTSCHE BÖRSE GROUP

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Stops The Press!

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Top Stories from FX this Week

- Investors Brace for Oil Price Spike, Rush to Havens After US Bombs Iran Nuclear Sites
- Bessent's Inaugural FX Report Could Better Connect Dots
- FX Risk Hits Dutch Pension Funds Harder than Stock Prices: Central Bank

Investors Brace for Oil Price Spike, Rush to Havens After US Bombs Iran Nuclear Sites

In a nutshell
Financial markets brace themselves for the fallout of US military action in Iran.

Why we think this story is interesting

Obviously, the big news of the weekend likely to impact financial markets in the coming weeks is the decision by US President, Donald Trump, to order a military strike on Iranian nuclear facilities.

This article notes that despite escalating tensions — including Iran's vow to retaliate — Middle Eastern stock markets (which, it's highlighted, trade on Sunday)showed a surprisingly calm response, suggesting investors are currently pricing in a restrained outcome. However, broader global markets are bracing for volatility, with analysts warning of an initial stock sell-off, a spike in oil prices, and a flight to safe-haven assets like the US dollar and Treasuries.

Oil is, not surprisingly, a focal point: the article points out that Brent crude has already surged 18% since June 10, and analysts suggest it could hit $100 if Iran disrupts Gulf oil flows or blocks the Strait of Hormuz. That could potentially stoke inflation, reduce consumer confidence, and complicate monetary easing efforts. On the other hand, the article notes that some investors see a possible peace window opening if Iran, stripped of nuclear leverage, seeks negotiations.

Cryptocurrencies, cited as a retail sentiment proxy (which is interesting in itself), reacted more strongly, with ether falling 8.5% on Sunday alone. Yet, Gulf equity markets and Israel's TA125 remained resilient, the latter even hitting all-time highs, reflecting regional confidence or complacency. Longer-term, market history suggests any initial equity pullback could be short-lived. Past Middle East conflicts saw brief S&P 500 declines followed by gains within months.

The dollar's path is less certain: the article cites analysts claiming that in the event of US direct engagement in the Iran-Israel war, the dollar could initially benefit from a safety bid. However, it also suggests that inflation fears and worries over diminished US exceptionalism could continue to act as a drag on the currency.

→ Can we help you with additional insight regarding these themes? If so, please don't hesitate to get in contact.

Bessent's Inaugural FX Report Could Better Connect Dots

In a nutshell
First Treasury report gets a lot right, but overlooks US policy shortcomings.

Why we think this story is interesting

This article comes from OMFIF, an independent think tank for central banking, economic policy and public investment, and it provides a pretty interesting analysis and opinion on the first Foreign Exchange Report (FXR) from the US Treasury Department under Scott Bessent on June 5. Essentially, the author makes the case that despite strong rhetoric around "destructive trade deficits" and "unfair trade practices," the findings of the new report align fairly closely with previous Treasury assessments, including those under former Secretary Janet Yellen.

Notably, the FXR does not label any countries as currency manipulators - a reflection, the article suggests, of recent efforts by many governments to stabilise their currencies.
The article compliments the FXR's robust data and thorough analysis of global imbalances, exchange rates, and the US economy.
However, it also points to a critical flaw: the report downplays the US's own major role in global imbalances. According to the piece, America's large current account deficit is driven largely by domestic fiscal and monetary decisions, including sustained deficits and low national savings.

China is another key focus, as the article states the FXR is justified in criticising the lack of transparency in China's exchange rate policies and its persistently large surpluses. Still, the article argues the report could have gone further in addressing how China's model, marked by low consumption and overproduction, contributed to global imbalances.
Japan also receives a rare mention, with the FXR subtly criticizing its monetary policy. The article questions the appropriateness of this commentary, given the usual discretion among advanced economies. Vietnam is flagged for possible transshipment activity, while also being recognized as an emerging destination for foreign investment.

Overall, this analysis paints the FXR as a solid and mostly accurate document, though it misses key opportunities to link US domestic policy with broader global economic trends.

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FX Risk Hits Dutch Pension Funds Harder than Stock Prices: Central Bank

In a nutshell
New data shows that FX risk has been a bigger problem for Dutch pension funds than falling equity prices.

Why we think this story is interesting

This article analyses data from the Dutch central bank, De Nederlandsche Bank (DNB), which underscores systemic vulnerability in European pension strategies exposed to FX volatility, particularly USD weakness.

This data also signals a warning for asset allocators: traditional diversification assumptions may no longer hold in a shifting geopolitical and macroeconomic landscape. This is important because as FX becomes a more active risk factor, strategic hedging decisions could become a greater point of regulatory and operational scrutiny.

The DNB data shows that in Q1 2025, Dutch pension funds saw a 3% decline in asset value — primarily driven by FX losses due to a weakening US dollar. FX risk outweighed equity market declines, with €24 billion (-4%) in losses tied to USD-based holdings. Despite FX derivatives providing €11 billion in gains — offsetting about 40% of currency losses — overall exposure remained high, according to this article, as Dutch funds typically hedge only fixed-income assets, not equities.

Roughly €551 billion of the €1.8 trillion in pension assets are in dollar-denominated investments. A further €27 billion in FX losses was reported through May as the USD fell an additional 4.9%, though U.S. equity prices recovered (S&P +5.3%) and generated €14 billion in investment gains. Bond prices, however, declined.

This article suggests that the DNB data highlights a structural issue: many Dutch pension funds avoid fully hedging currency risk due to the cost and collateral requirements of derivatives. Moreover, they deliberately leave equity FX risk unhedged, as equity and FX often move in opposite directions, providing a natural offset. Over the past five years, about 40% of FX risk has been mitigated in this way.

However, in Q1 this historical diversification failed, as both equities and the dollar declined simultaneously. DNB attributes this breakdown partly to policy uncertainty under the current US administration, while the article suggests that its apparent preference for a weaker dollar may exacerbate FX risk going forward.

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