Currency composition of FX reserves in the wake of interventions

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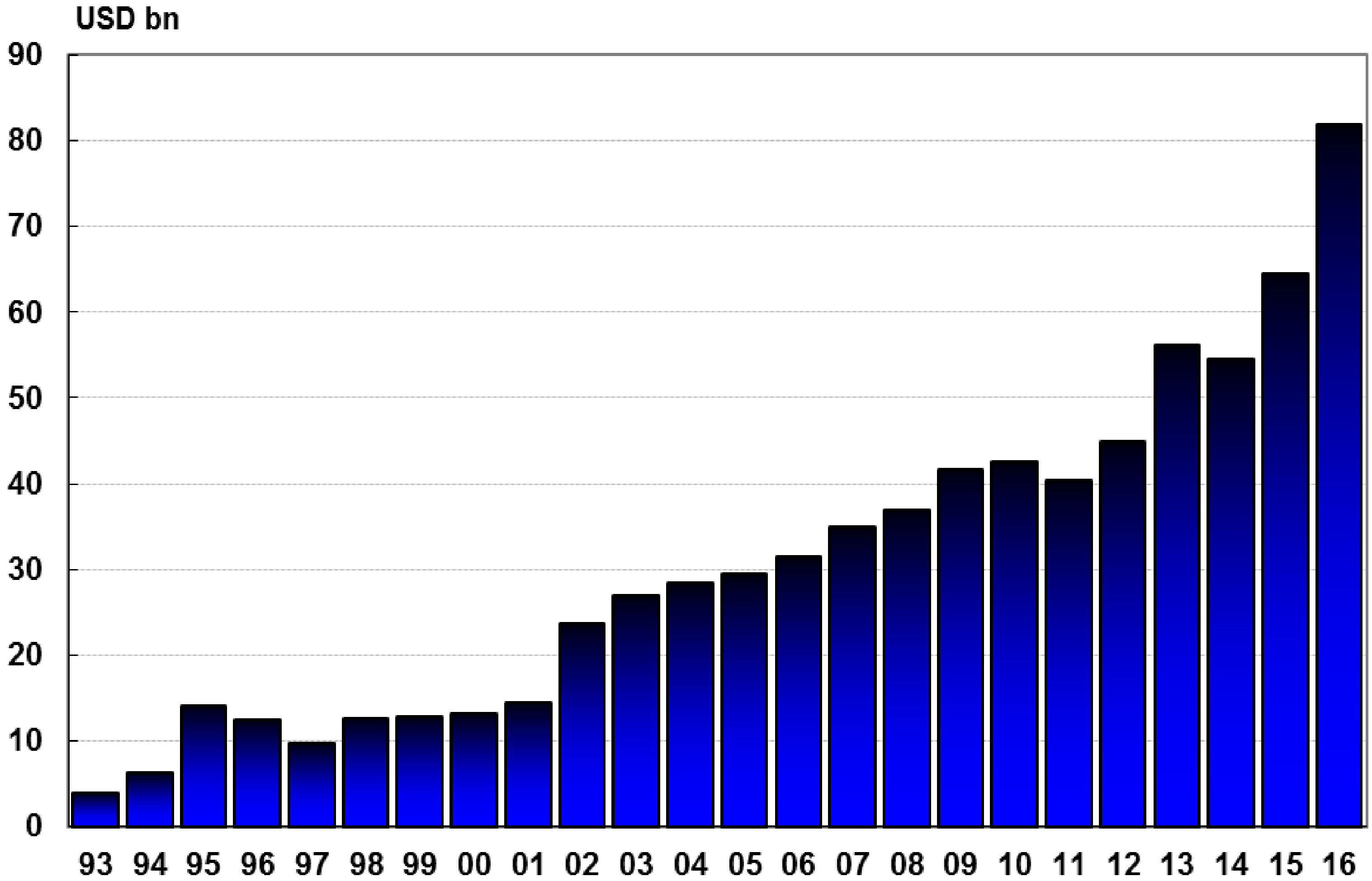
Outline

- Growing size of FX Reserves
- Prior changes of currency composition
- Asset structure
- Interventions on the market
- Resulting measures taken

Size of FX Reserves

The volume of reserves in the last 5 years almost doubled
82 bil. USD (30.9.2016)



Currency mix – Several prior changes (1)

Starting point: EUR, USD

EUR:

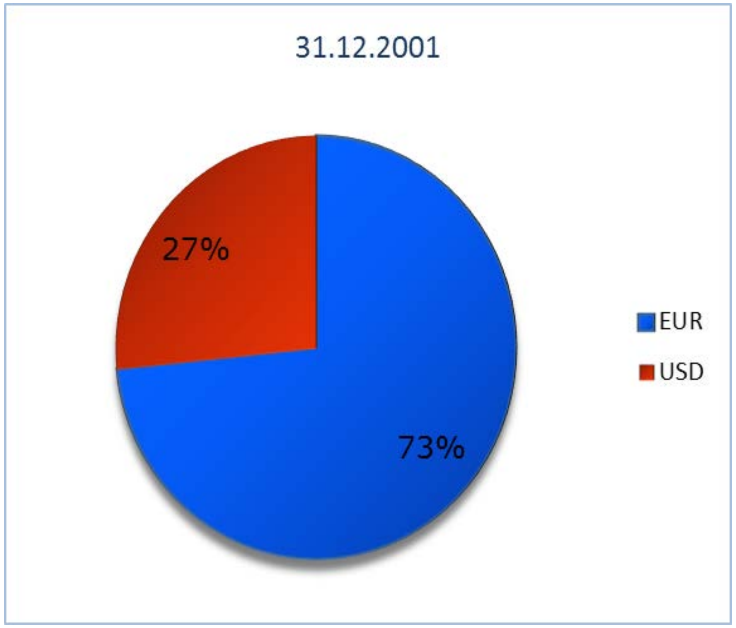
- Main intervention & transactional currency
- Future joining of EMU

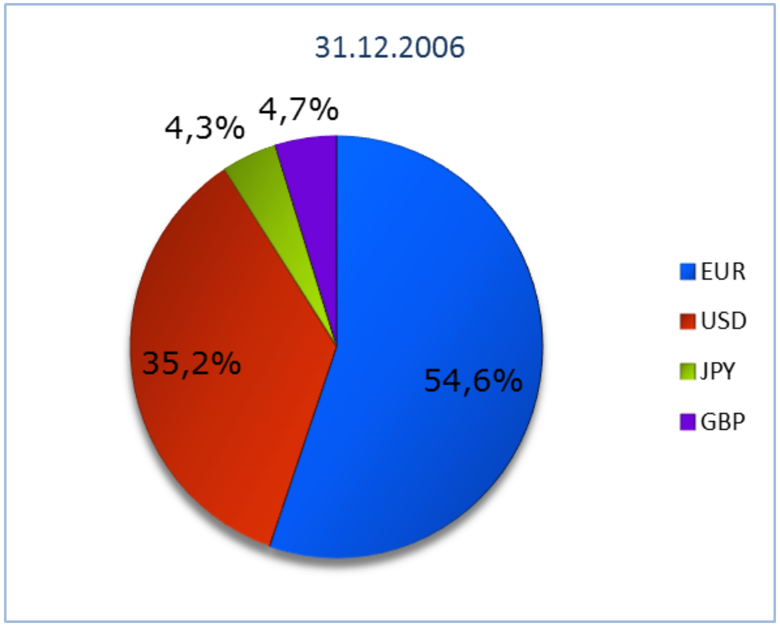
2006: JPY, GBP currency overlay

USD ptf:80%$ / 10%¥ / 10%£

Motivation: diversification, return enhancement

Size fixed (10 bil. USD)





Currency mix - Several prior changes (2)

2010 & 2011 – Changes driven by credit concerns

- Financial Crisis

Several measures taken, starting 9/2007

Universe of eligible instruments/institutions shrunk considerably

Ban on uncollateralized bank exposure

Tilt towards less risky instruments/tougher limits, government related exposure

- Sovereign debt crisis

Absolute ban or limit reduction of government limit

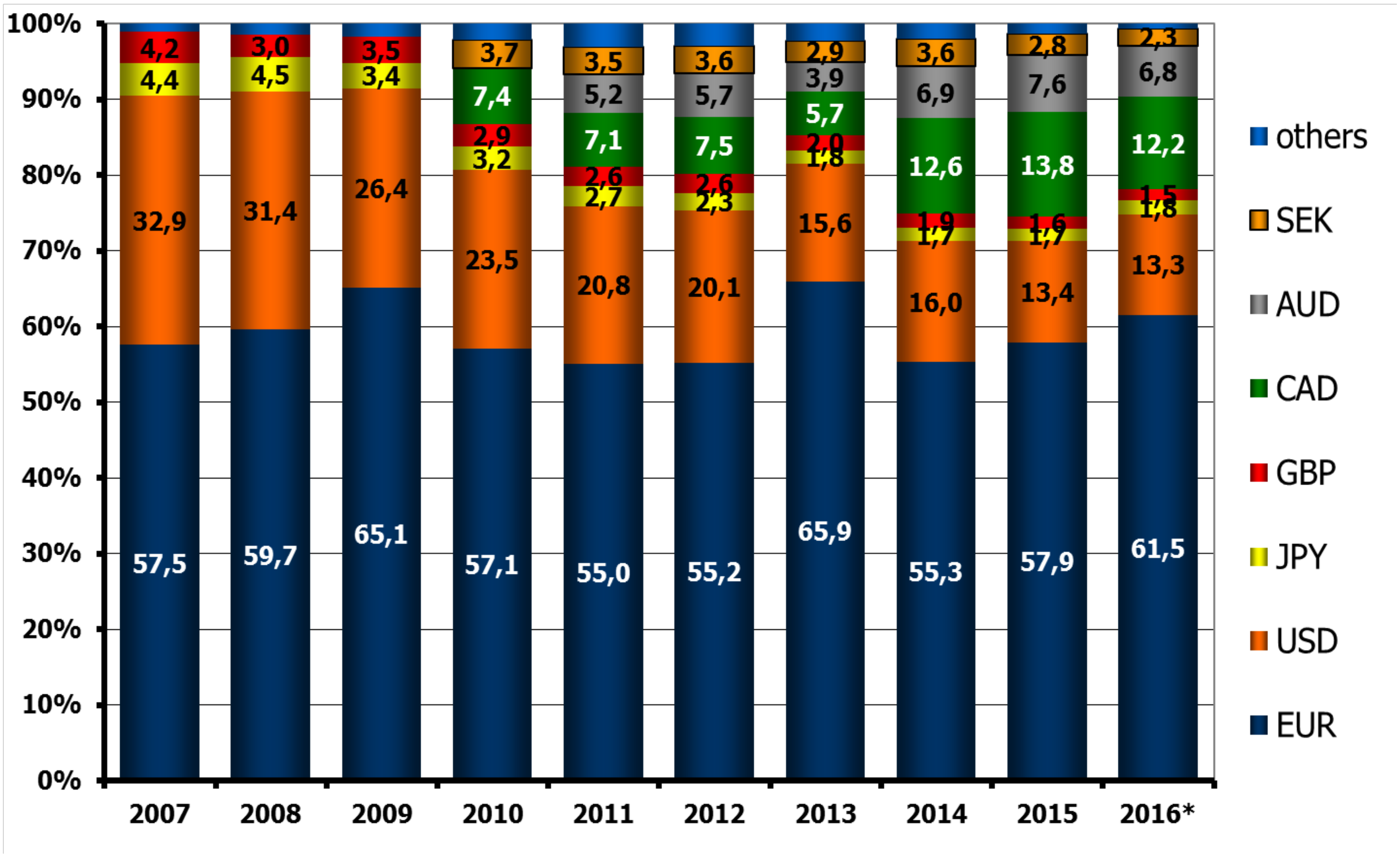
BUT Where should we reinvest?

SEK & CAD portfolio created out of the EURO portfolio in 2010

AUD portfolio created out of the EURO portfolio in 2011

Currency composition of FX Reserves

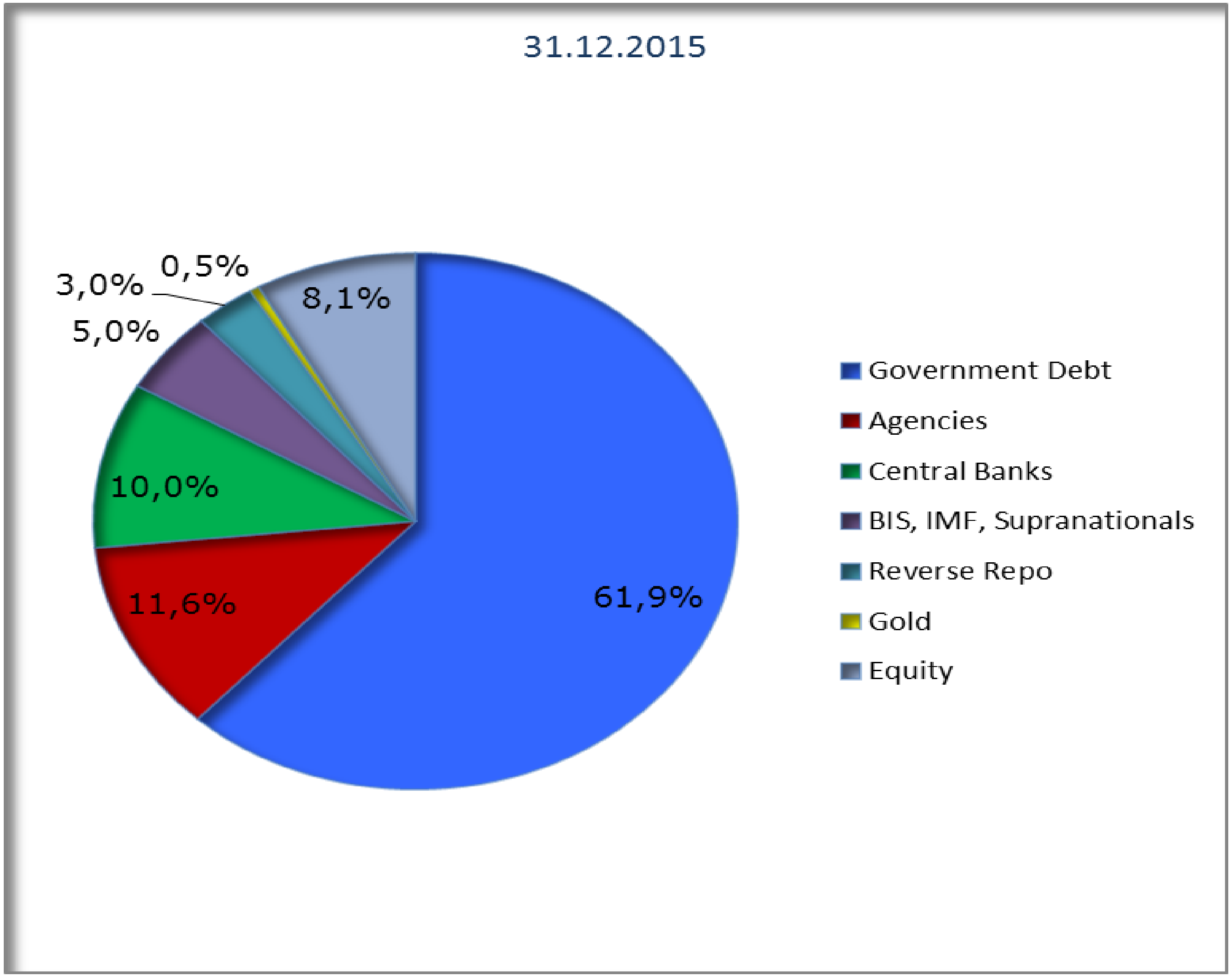
CNB CZECH NATIONAL BANK



Composition of FX reserves

CNB CZECH NATIONAL BANK

90%Fixed income / 10%Equity



Composition of FX Reserves

Fixed Income

Very conservative credit profile

FX & swaps under ISDA (CSA)

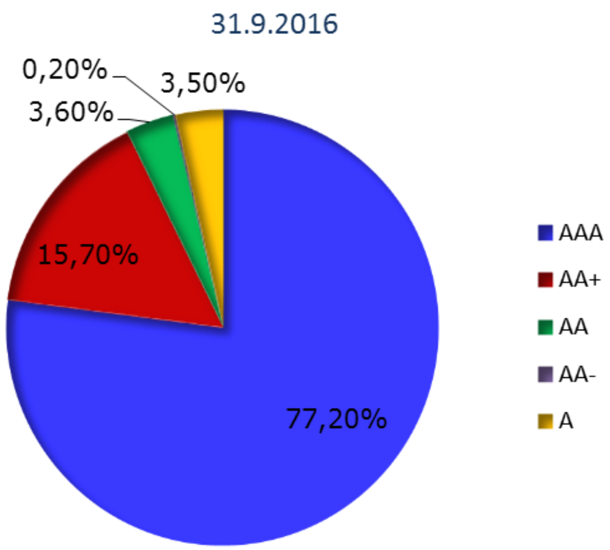
No uncollateralized exposure to banks

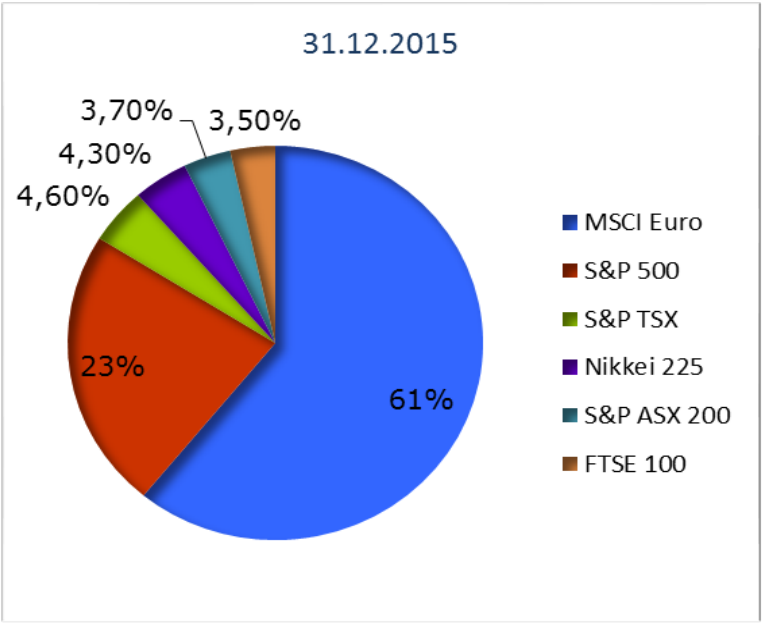
Equity

Since 2007; AUD & CAD 2013

FX volume > level necessary to provide for monetary purposes

Return enhancement while not increasing risk





Interventions

November 2013 “The CNB will intervene on the FX market to weaken the koruna so that the exchange rate is close to CZK 27/EUR.”

- Selected by the Bank Board as the most appropriate MP tool when interest rates hit zero.
- To avoid deflation or LT undershooting of inflation target.
- Repeatedly prolonged.
- Automatic – no additional decision required, no limits on span and volume of interventions.

Interventions – resulting changes (1)

The sum of FX interventions has reached 20,9 bil. EUR until July 2016.

2013 7,5 bil. EUR inflow solely due to interventions

- EUR ptf. 40% increase
- Concentration in Germany increased (15 bil. EUR)
- Negative implications on returns
- All other FI portfolios defined in absolute amounts

Aim: credit profile to remain unchanged with regards to the liquidity of the overall portfolio

- What is the upper limit of our investments in credit strong countries?
- Impact on FX market?

Interventions – resulting changes (1) continued

As a result credit strong portfolios increased (SEK, AUD, CAD) & EUR ptf. back on the previous weight

2014 Rebalancing started

2014 no interventions

2015 9 bil. EUR inflow due to interventions

Currency structure 9/2015	
EUR	34,1 bil. EUR
USD	8 bil. USD
JPY	1 bil. USD eq.
GBP	1 bil. USD eq.
CAD	9,5 bil. CAD
AUD	5,3 bil. AUD
SEK	14,3 bil. SEK

Interventions – resulting changes (2)

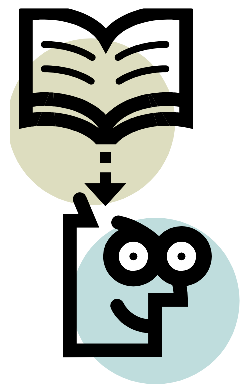
CNB CZECH NATIONAL BANK

2015 Second change

- Let EUR ptf. grow without upper limit?
  - Concentration in EMU gov. debt?
  - Benchmark change?
  - Impact on returns?
- Additional currency portfolio?
  - Large volume – limitation on possibilities available.
  - Additional CNB stuff required?
- USD portfolio increase?
  - No concerns regarding concentration limit.
  - Relatively strong credit.
  - Expensive?
- Change in asset allocation?
  - MBS? Alternative assets?

Resulting change: USD ptf. increase

What next?



Thank you for your attention

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