

Global Markets Daily: Fed Communication and FX Volatility

- We examine the potential implications of less Fed forward guidance for FX volatility using historical evidence from the US and lessons from abroad. We are able to leverage a set of historical US and international market events; some elements of Chairman Warsh's preferred approach are similar to the Fed's pre-GFC communication style, and other central bank leadership transitions have also wrestled with a change in both communication style and data emphasis.
- We begin by assessing how FX volatility has evolved with innovations in FOMC communications, similar to work done by our rates strategists. We find that, under Chair Powell, FX volatility shifted from the FOMC statement to the press conference. We also find that disagreement with the Committee—measured by so-called “hidden dissents”—were positively associated with increased volatility around subsequent data releases, although the relationship is weaker than in rates vol.
- We next turn to potential lessons from abroad. In our view, the current situation most closely resembles the Bank of Canada's transition following Governor Mark Carney, who pioneered the use of explicit forward guidance as he steered the BoC through the Financial Crisis. Following his departure, the next Governor dialed back guidance, changed the Bank's preferred inflation measure and brought a different perspective to persistent inflation misses. We find some evidence that this led CAD vol to move higher than peers, and of “growing pains” as the market learned to adjust to the new approach.
- Both in the US historically and in other similar cases abroad, central bank communication style can dictate FX volatility relative to other currencies, but macro factors are much more important for the overall level. Nevertheless, the data show that even small communication changes can have an impact on how FX volatility tends to respond to different events, at different horizons, and even to different data. Taken together, we expect less Fed forward guidance to translate to higher front-end vol, more focus on other Fed communications, and potentially more market misfires as investors learn a different data framework.

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Fed Communication and FX Volatility

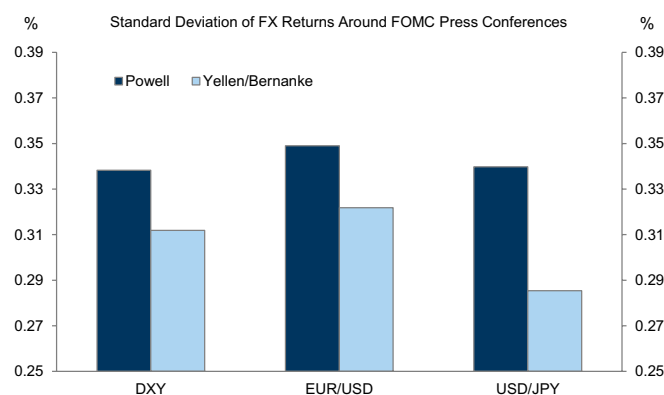
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preferred approach are similar to the Fed's pre-GFC communication style, and other central bank leadership transitions have also wrestled with a change in both communication style and data emphasis.

Looking Back: Lessons from Prior FOMC Communication Changes

We begin by assessing how FX volatility has evolved alongside changes in FOMC communications, building on similar [work](#) by our rates strategists. We find that, under Chair Powell, FX volatility shifted from the FOMC statement to the press conference. Compared with the Bernanke and Yellen eras, post-FOMC press conferences under Powell generated higher intraday FX volatility ([Exhibit 1](#)), while the statement elicited a more muted market response ([Exhibit 2](#)). This is consistent with both our rates strategists' findings and the broader academic [literature](#), which attribute the recent increase in market volatility around press conferences partly to differences between Chair Powell's communication style and that of his predecessors. However, macroeconomic conditions and the policy choices they presented—including parameters like new innovations in forward guidance and QE program details released in the FOMC statements—likely played an important role, in our view.

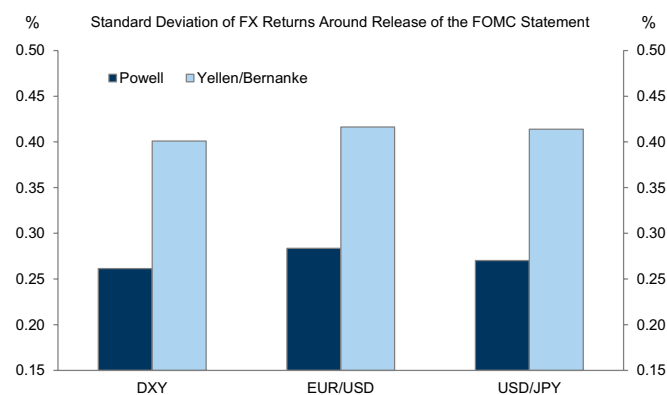
Exhibit 1: Compared with the Bernanke and Yellen eras, post-FOMC press conferences under Powell generated higher intraday FX volatility...



70-minute window from 10 minutes before to 60 minutes after the beginning of the press conference; We exclude the March 15, 2020 meeting.

Source: USMPD, Goldman Sachs Global Investment Research

Exhibit 2: ...while the statement elicited a more muted market response



30-minute window from 10 minutes before to 20 minutes after the release of the FOMC statement; We exclude the March 15, 2020 meeting.

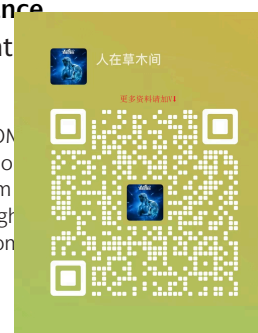
Source: USMPD, Goldman Sachs Global Investment Research

We also find some evidence that committee disagreements, reflected in “[hidden dissents](#)” revealed through the FOMC minutes, contribute to higher FX volatility, although the relationship is less pronounced than in rates markets. We find that “hidden dissents” are positively associated with elevated FX volatility around subsequent macroeconomic data releases, but the evidence is relatively weak compared to the more direct signal in US rates markets.

Looking Up: Lessons from Canada's Transition to Less Forward Guidance

We next turn to potential lessons from abroad¹. In our view, the current

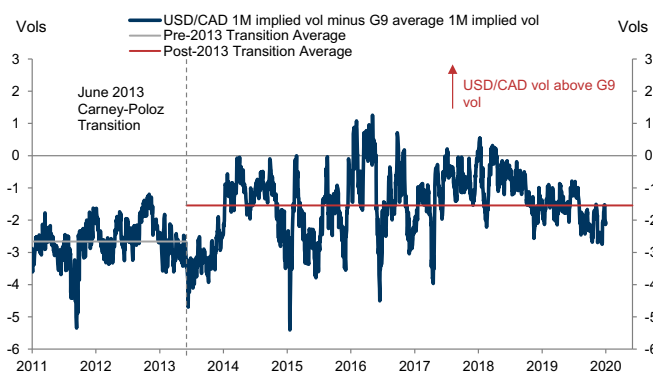
¹ In another possible lesson from abroad that we do not cover here, we note that the FOMC discussion to potentially reduce the number of policy meetings also has a recent international counterpart. The Swedish Riksbank decided in 2019 to reduce the number of meetings it held per year from 10 to 8 following a period of global policy rate volatility, it reversed this decision and moved to eight meetings per year in order to be able to “more rapidly adapt monetary policy to the prevailing situation and conditions.”



closely resembles the Bank of Canada's transition following Governor Mark Carney, who pioneered the use of date-based, detailed forward guidance as he steered the BoC through the Financial Crisis and its aftermath. Following his departure, his successor, Governor Poloz, deliberately and materially dialed back forward guidance. With some parallels to the US today, Poloz argued that less forward guidance would encourage the private sector to devote more time to studying the Canadian economy and market pricing would better reflect what the Bank should do, rather than what it would do. In another similarity, although the situation is now reversed, Poloz argued that a prolonged period with inflation away from the midpoint of the Bank's target range warranted a change from a tightening to an easing bias. He eventually led the BoC to develop new measures of underlying inflation trends to help re-focus the Bank's efforts.

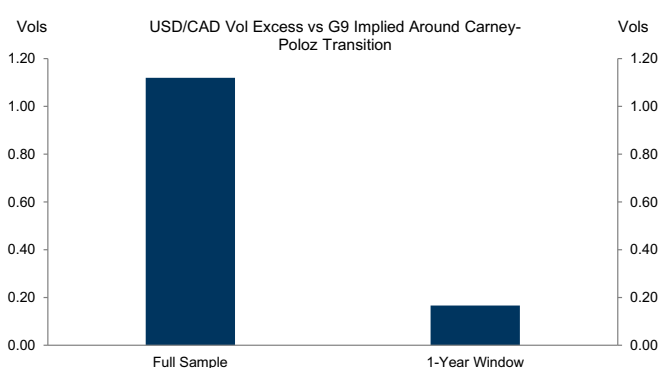
We use a difference-in-differences approach to observe how USD/CAD volatility behaved around the transition period, while neutralizing the effect of broader macroeconomic conditions. USD/CAD vol has historically traded at a discount to the G9 average but after the transition in June 2013, this discount narrowed (Exhibit 3). While CAD vol remained below the G9 average throughout, the spread compression is consistent with higher volatility given less forward guidance. We find that USD/CAD vol outperformed G9-predicted levels during the Poloz era and relative to the counterfactual, this was worth about 1.0 vols (Exhibit 4). While fairly small in outright terms, this is still meaningful for a low vol currency. We attribute the results to the joint effect of less forward guidance and a potential shift in the Bank's reaction function.

Exhibit 3: USD/CAD vol has historically traded at a discount to the G9 average but after the transition in June 2013, this discount narrowed



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 4: USD/CAD vol outperformed G9-predicted levels during the Poloz era worth about 1 vols relative to the counterfactual



Difference-in-differences regression comparing USD/CAD 1M implied vol against G9 average. Full sample: January 2011 – May 2013 vs June 2013 – June 2020; 1-Year window sample: June 2012 – May 2013 vs June 2013 – June 2014. 'Excess vol' = TREAT×POST coefficient, capturing the change in USD/CAD vol beyond what was explained by the common shift across all G9 pairs. Includes crisis dummies.

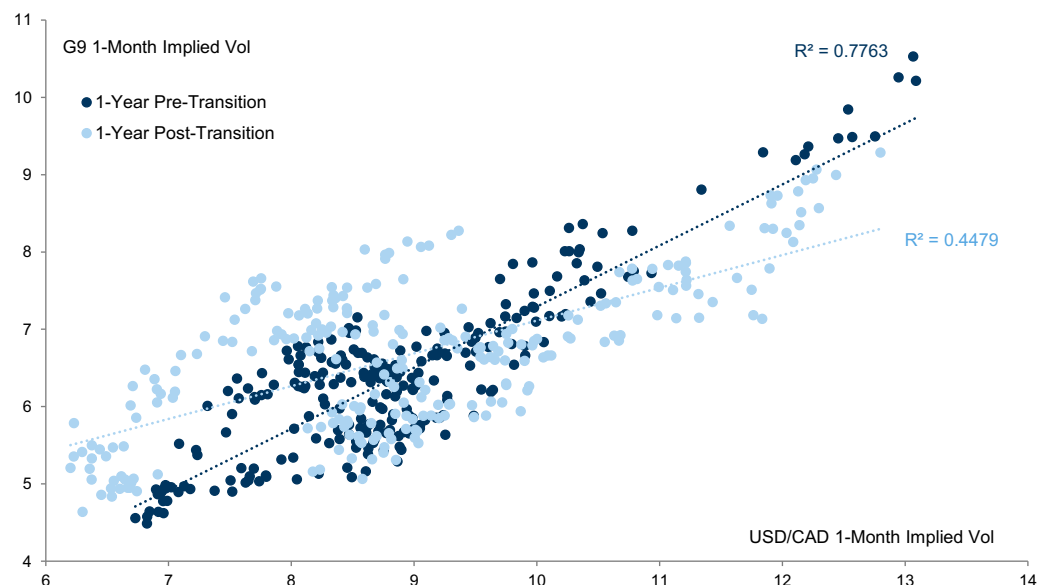
Source: Bloomberg, Goldman Sachs Global Investment Research

When we compare the final year of Carney's term to the first year of Poloz's, we find that the CAD vol term structure flattened—front-end vols rose relative to back-end levels—which likely reflects Canada's shift away from forward guidance. We also find that CAD implied vols became more idiosyncratic, and less correlated to implied volatility in other G10 currencies and global factors. Prior to Carney's departure, we find that USD/CAD

view on economic developments more often.”

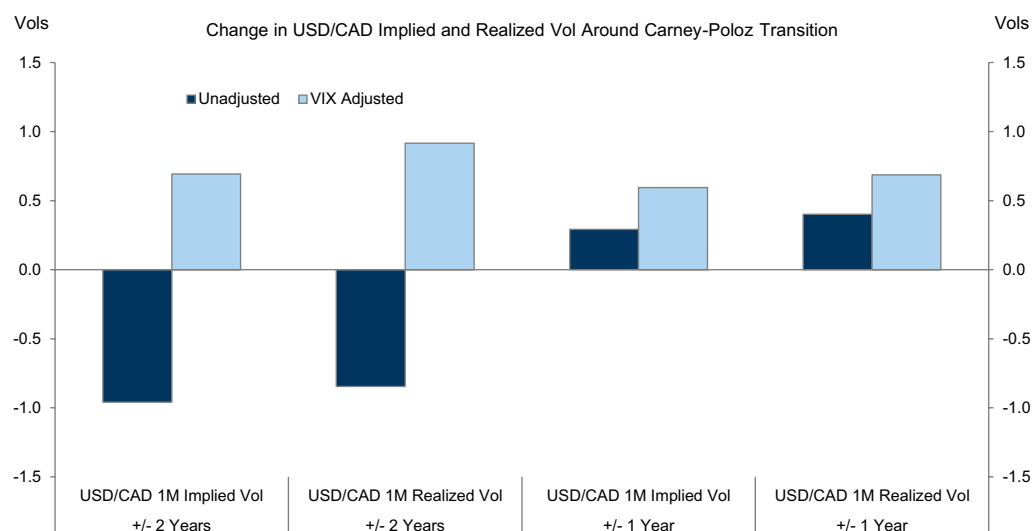
implied vol moved closely with the broader G9 FX vol complex with 78 percent of the variation in CAD vol explained by common global factors. In the year after the transition, this relationship weakened substantially suggesting that domestic considerations became a more prominent driver ([Exhibit 5](#)).

Exhibit 5: Comparing the final year of Carney's term to the first year of Poloz's, CAD implied vols became more idiosyncratic, and less correlated to implied volatility in other G10 currencies and global factors



Source: Bloomberg, Goldman Sachs Global Investment Research

In all of this analysis, we mainly focus on the change in *relative* volatility or isolate small event windows to help identify the effect of central bank communications and control for idiosyncratic macroeconomic factors. It is worth noting that the period around the transition from Carney to Poloz coincided with a reduction in volatility overall. It is only after we control for these global factors that we see some relative increase in CAD vol ([Exhibit 6](#)). In other words, reduced guidance alone is not a sign that implied and realized volatility will move higher. For that, we rely on our longer-term volatility models and have discussed the types of catalysts that typically move markets into a higher vol regime.

Exhibit 6: Only after we control for global factors do we see some relative increase in CAD vol

Source: Bloomberg, Goldman Sachs Global Investment Research

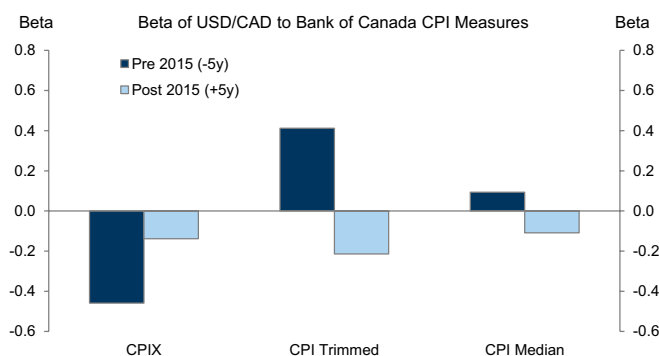
Looking Around: Lessons from Canada's Change in Inflation Focus

In addition to changing the Bank's style of communicating with the market, Governor Poloz also argued that inflation was persistently missing the Bank's target (it had been in the lower half of the Bank's 1-3% target range for some time) and policy needed to be recalibrated. To help make this point, he began focusing on a different set of inflation measures to guide policy. This eventually culminated with the Bank of Canada adopting three new "preferred" inflation measures in its 2016 Framework Review, although the measures were previewed in [staff policy work](#) and informed policy rate decisions before that.

Because these measures were slowly adopted over time, there is not a clear "regime break" but we can still observe a shift in the market focus over this period². Prior to 2015, FX markets responded to the BoC's core measure which excludes a fixed set of eight volatile components (CPIX), which had been the Bank's primary core gauge since 1991. But after moving to alternative measures of underlying inflation, the market began to respond more reliably to surprises in those. Most compelling, we find that when these measures gave different signals, markets began to respond to the signal in the "new" measures after the Bank had signaled this was their preferred approach for setting policy.

² Our findings are robust to using different starting dates in the specification, including when the measures were officially adopted in the Bank's Framework or began to appear in the quarterly Monetary Policy Report.

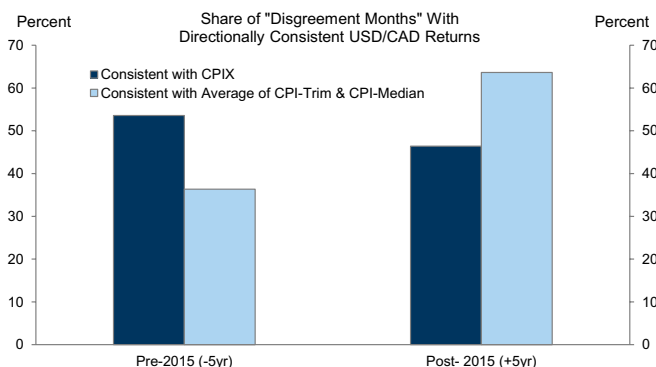
Exhibit 7: After moving to alternative measures of underlying inflation, the market began to respond more reliably to surprises in those...



Regression of USD/CAD returns on month-over-month change in respective inflation measure; Sample: 5 years pre-2015 and post-2015.

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 8: ...especially when these “new” measures gave a different signal from the “old” measure



“Disagreement months” = months where CPIX and the average of CPI-Trim and CPI-Median move in opposite directions

Source: Bloomberg, Goldman Sachs Global Investment Research

Importantly, these measures are simple to calculate with publicly available data³. Our Global Team calculates similar measures for each G10 economy, and economists regularly construct various measures of underlying inflation to form a view on the outlook. The BoC’s focus simply made them more relevant to the market. The Bank subsequently expressed some regret that introducing new measures, and labeling them as the “preferred” ones, led to some confusion among market participants and the public.

In our view, this demonstrates that, even when markets are “playing the ball, not the referee,” investors still need to adapt to rule changes.

Looking Ahead

We have shown, and recent events have borne out, that central bank leadership transitions can clearly have an effect on FX volatility. Often, this appears as moving the volatility around—whether from one form of communication to another, or to a different set of datapoints. Our economists have discussed how even that can be detrimental if markets and policymakers are not in sync.

It is also worth noting that increased volatility in the Dollar, in particular, can have wide-ranging market implications given its global role, which is one reason why Fed officials have long sought to suppress surprises. Fed communication tends to have the largest international spillovers of any central bank and unsurprisingly FX tends to respond more reliably than any other asset class to policy surprises given its relative nature.

While not enough to overcome the broader macro backdrop, even small communication changes can have an impact on how FX volatility tends to respond to different events, at different horizons, and even to different data. Taken together, we expect less Fed

³ Technically, the BoC’s measures initially used more detailed category-level data than was widely available. However, they could be approximated quite closely. There was also initially a third measure, CPI-Common. But it has been subject to significant revisions over time and has fallen out of favor, so we do not include it in this analysis.

forward guidance to translate to higher front-end vol, more focus on other Fed communications, and potentially more market misfires as investors learn a different data framework.



Best Trade Ideas Across Assets

For pricing and a list of previous recommendations, please visit our [Trade Ideas page](#).

1. Stay short SGD/MYR, opened January 24, 2026, at 3.13, with a target at 2.90 and a stop at 3.30, currently trading at 3.19.
2. Stay long TRY, NGN and KZT against the USD, as an equally weighted basket, opened February 18, 2026, at 0%, with a total return target of 7.5%, and a revised stop of 1.5%, currently trading at 5.6%.
3. Stay long 3y SOFR swap spread, opened 17 April 2026, at -22.6bp, with a revised target at -15bp inclusive of carry; and a revised stop at -20bp, currently trading at -19bp.
4. Stay short USD/EGP, opened 24 April 2026, at 0%, with a revised total return target at 12% and a revised stop at 5%, currently trading at 9.8%.
5. Stay long 5y Receivers on 3m 2s5s10s Receiver Fly (bp running), opened 09 May 2026, at 1bp, with a target at 10bp and a stop at -5bp, currently trading at 0bp.
6. 1y forward 2s10s GBP OIS steepeners, opened 29 May 2026, at 0.38, with a target at 0.55 and a stop at 0.25, currently trading at 0.35.
7. Stay short THB/INR, opened 12 June 2026, at 2.91, with a target at 2.70 and a stop at 3.05, currently trading at 2.89.
8. Stay long INR 30y bonds, opened 27 June 2026, at 7.34%, with a target at 6.90% and a stop at 7.65%, currently trading at 7.41%.
9. 2s10s NZD steepeners, opened 03 July 2026, at 72bp, with a target at 90bp and a stop at 50bp, currently trading at 79bp.
10. 2s10s CAD steepeners, opened 10 July 2026, at 53bp, with a target at 80bp and a revised stop at 50bp, currently trading at 58bp.
11. Stay short AUD/NZD, via 6m (14 Jan 2027) 1.1650 puts, opened 14 July 2026, at 1.2000, currently trading at 1.1992.
12. Stay long NIFTY Banks vs. short NIFTY Pharma, opened 15 July 2026, at 100 in local currency (INR), with a target at 115 and a stop at 90, currently trading at 98.
13. 2s5s SOFR steepeners versus OIS flatteners in Europe, opened 31 July 2026, at -7bp, with a target at 10bp and a stop at -15bp, currently trading at -5bp.
14. Stay short PLN/HUF, opened 5 August 2026, at 84.12, with a target at 80.5 and a stop at 87, currently trading at 84.47.
15. Pay 5y5y JPY vs EUR 5y5y OIS, opened 7 August 2026, at 10bp, with a target at 35bp and a stop at -5bp.

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