

## Recent Economic Trends and Volatility in Major Foreign Currencies (1/13/2015)

As the euro area economy continues to struggle, growth in China begins to slow, and oil prices (per the West Texas Intermediate, WTI) dipped to their lowest intraday level of \$46.83 a barrel on Jan. 7, 2015 (since April 2009), certain foreign currencies – particularly the euro, the Canadian dollar (loonie) and the yen – have experienced significant declines.

The U.S. insurance industry's direct exposure to foreign currency risk remains modest. As of year-end 2013, translated into U.S. dollars, the U.S. insurance industry had approximately \$47.7 billion in foreign currency exposure, of which the largest five currency exposures were: \$21 billion in Canadian dollars, \$10 billion in Japanese yen, \$8 billion in the euro, \$5.5 billion in the British pound and \$1.6 billion in Australian dollars. In Canada, unemployment was an unexpected 6.6% in December 2014, which was also the second straight month of job losses for the country, suggesting its economic progress is flailing. The loonie has dropped 12.1% since mid-June 2014, reaching its lowest level in January 2015 (since May 2009). The Japanese yen decreased 12% in all of 2014, and despite some upticks and the Bank of Japan stating it will buy at least 1.25 trillion yen, the value of the yen is expected to continue to decrease in 2015; it has been on a declining trend for three years. The value of the yen dropped 17% from early July 2014 to early January 2015. A weak economy persists in the euro area, with poor industrial data reported from three large Eurozone economies (Germany, France and Finland) suggesting recovery is far off and faltering. Political uncertainty (particularly related to the upcoming Jan. 25 Greek elections) and deflation risk further put economic recovery at risk in this area; however, additional economic stimulus by the European Central Bank may be on the horizon in the form of sovereign bond purchases (in particular, €500 billion of investment-grade assets). On Jan. 8, 2015 the euro reached its lowest level since December 2005, down 15% from May 2014. Lastly, the value of the Australian dollar and British pound also experienced relatively large decreases from July 2014 to early January 2015, at 14.1% and 11.8%, respectively. The NAIC Capital Markets Bureau will continue to monitor trends with foreign currencies in general and report as deemed appropriate.