

**Minutes of the Canadian Foreign Exchange Committee
Meeting #104**

**11:00 – 13:00
11 March 2021
Conference call**

Present: Christine Bourgeois, Caisse de dépôt et placement du Québec
Dagmara Fijalkowski, RBC Global Asset Management
Lorne Gavsie, CI Global Asset Management
Tom Gillie, RBC Capital Markets
William Kellett, Scotiabank
Sharon Kim, TD Securities
Russell Lascala, Deutsche Bank
Martin Legault, National Bank Financial
Nicolas Marion, Department of Finance, Canada
James McCrindle, Bank of America
Manuel Mondedeu, CIBC World Markets
Les Radvanyi, HSBC Bank Canada
Gaétan Reid, State Street Global Markets
Jill Sigelbaum, Refinitiv
Chris Soriano, NEX Group
Miro Vucetic, Citibank
Simon Watkins, BMO Capital Markets

Grahame Johnson, Bank of Canada (Chair)
Zahir Antia, Bank of Canada (Secretary)
Harri Vikstedt, Bank of Canada
Wendy Chan, Bank of Canada
Thomas Thorn, Bank of Canada
Aree Lokcharoenlarb, Bank of Canada

External speakers:

Shirley Barrow, Refinitiv
Keith Elliot, Refinitiv
Michael Dawson, Shell
Christopher Rich, FMSB

The meeting was conducted as a video conference call.

1 Adoption of Agenda

The Committee adopted the agenda, as written.

2 FX market conditions

Members discussed FX market developments since the last CFEC meeting. It was noted that moves in FX markets have been more muted relative to other asset classes, especially government bond markets. US bond yields are higher, driven by better-than-expected economic data and an improving growth outlook. Higher bond yields have supported the US dollar, which has recently appreciated from its cyclical lows. The main reason cited for the relatively modest moves in FX markets is that other bond yields globally have risen in tandem with US yields, and therefore interest rate differentials have not changed materially. While implied volatility has increased, the moves were small relative to the increase in volatility in bond and equity markets. Unwinding of relatively large short US dollar positions has also supported the US dollar. Some members viewed the US dollar as still being slightly overvalued relative to fundamental drivers, despite its depreciation since the depths of the Covid-19 crisis a year ago. Some emerging market currencies, especially the Mexican peso, have appreciated as risk appetite remains solid and investor seek higher returns.

Commodity currencies, including the Canadian dollar, have broadly outperformed other currencies since the last CFEC meeting, supported by the global reflation theme, which has also boosted commodity prices. The Canadian dollar has been further supported by a larger increase in Canadian bond yields relative to the US and Europe. Most members felt that the Canadian dollar was trading close to fair value.

Members indicated that overall FX markets have been functioning well, even during the recent period of illiquidity in the bond market. Bid-offer spreads in the G-10 currencies have remain relatively tight, although there was some modest widening of spreads in some EM currencies. Finally, funding levels implied from FX forwards did not indicate any stresses in the forward market. This largely reflected the abundance of US dollar liquidity provided by the Federal Reserve.

3 Workplan update

Members discussed potentially launching a CFEC related project to provide further insight into the Canadian wholesale foreign exchange market, which would draw on CFEC members expertise. Members were asked to submit their ideas on potential topics to the Secretariat. A concrete proposal, based on the feedback received, will be submitted to CFEC members at the next meeting.

4 WM/Refinitiv update

Shirley Barrow and Keith Elliot from Refinitiv Benchmark Services Limited provided an overview of the WM/R benchmarks and an update on the organization's engagement

efforts with market participants. They outlined the regulatory and compliance framework and other initiatives undertaken by Refinitiv to raise awareness and knowledge around WM/R. They presented analysis of CAD's trading pattern in 2020 around the London 4pm WM/R fix using data sourced from the Refinitiv Matching platform. Daily analysis around the 4pm period (3:45-4:15pm) indicated that trade frequencies tended to peak at month-end. There were exceptions, particularly in March 2020 where trade frequency remained elevated throughout the month. At a more micro level, trade frequency significantly increased during the 5 minutes window. Bid-offer spreads also tightened as the benchmark window opened and remained low throughout the benchmark window.

5 Presentation from FMSB on the Standard for the execution of Large Trades in FICC markets

Members from the FICC Market Standards Board (FMSB) presented their proposed Standard for the execution of Large Trades in fixed income, currency and commodity (FICC) markets. The [paper](#) sets out expected behaviour for participants in the secondary FICC markets. These include (i) reduce information asymmetries between dealers and clients; (ii) clarify and codify the principles governing the pre-hedging of Large Trades; (iii) establish clear expectations with regard to client confidentiality; and (iv) ensure that clients communicate with dealers in a transparent manner.

CFEC members are encouraged to provide feedback on the report by March 16th as it has implications for FX markets.

6 Update on GFXC workstreams

A member from the Bank of Canada provided a summary of the draft papers from the various workstreams established by the GFXC on the 3-year review of the FX Global Code. Members were requested to provide written comments to the CFEC Secretariat, which will then be consolidated and sent to the GFXC Secretariat. Discussion of these papers will be the main agenda item at the upcoming GFXC meeting in March. A member from the Buy-side Engagement workstream also updated members on initiatives proposed by the group to expand outreach on the Code with the buy-side, such as engaging with industry groups.

7 Other business

The Chair informed members that the Bank of Canada is planning to perform, at the end of Q2-21, a limited number of small test trades in the interbank spot FX market on Refinitiv's Matching platform. The Chair mentioned that these trades are part of the Bank's ongoing operational resilience plan. All flows will be in USDCAD.

The next meeting is scheduled for June 10th.