Minutes of the Canadian Foreign Exchange Committee

11:00 – 13:00
14 September 2021
Video 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
Martin Legault, National Bank Financial
Nicolas Marion, Department of Finance, Canada
Blake Hampton-Davies, Bank of America (alternate)
Manuel Mondedeu, CIBC World Markets
Les Radvanyi, HSBC Bank Canada
Gaétan Reid, State Street Global Markets
Jill Sigelbaum, Refinitiv
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
Sean Durr, Bank of Canada

External speakers:
Benjamin Randol, Bank of America
Michael Barron, Deutsche Bank

The meeting was conducted as a video conference call.

1 Adoption of Agenda

The Committee adopted the agenda, as written.

2 FX market conditions

Benjamin Randol, FX Strategist at Bank of America, presented Bank of America's outlook on the FX market. He noted that diverging expectations of central bank policy will likely be the main driver of FX rates going forward. The USD is expected to appreciate against other low-beta currencies, particularly the EUR, because Federal Reserve is expected to start normalizing monetary policy before the ECB and Bank of Japan. He expects the Federal Reserve to start reducing the pace of asset purchases in November and to conclude its "tapering" by end-Q3 2022. A spike in global risk aversion resulting from a global slowdown due to concerns around the Delta variant should result in further USD appreciation. FX market positioning measures indicate that despite some significant short covering of USD positions, the market remains short USD. Consistent with their view that the USD will appreciate over the remainder of the year, Mr. Randol expects the CAD to depreciate modestly to around 77 US cents by the end of 2021. Some of the positive CAD factors such as higher oil prices and the positive economic benefits from the re-opening of the economy have already been priced in.

Members discussed the impact of a higher USD on FX volatility. It was noted that a stronger USD could have a negative impact on risk assets, which could lead to higher FX volatility. However, some felt that a stronger USD may not negatively impact risk assets. A benign repricing of risk assets in the face of higher USD would have limited impact on FX volatility.

3 Return to Office plan update

Members provided an update on their "return to office" plans for staff. Several members noted that initial deadlines for staff to return to offices in Toronto have been pushed back due to the Delta variant. While planned timelines to return to a "steady state" varied, most firms are gradually increasing the number of staff working in the office in a measured way. Members emphasized that final timelines will be informed by public health guidelines. A few members noted that offices in London and New York were further ahead in their return to office plans.

4 Impact of risk-free rates on cross-currency swap conventions

Michael Barron, Deutsche Bank's representative on the UK's Working Group for Sterling Risk-Free Reference Rates and a front-office lead for IBOR transition, provided an update on the upcoming changes to inter-dealer trading conventions of cross-currency swaps (CCS). He informed members that on September 21st, cross-currency swaps denominated in USD, GBP, CHF, JPY will no longer be priced off LIBOR rates, but domestic risk-free rates. In the US, the Secured Overnight Financing Rate (SOFR) will be the main benchmark interest rate. JPY CCS will be priced off the Tokyo Overnight Average rate (TONA), GBP CCS will be priced off the Sterling Overnight Index Average rate (SONIA) and CHF CCS off the Swiss Average Rate Overnight rate (SARON). He noted that interest rate swaps priced off SOFR and SONIA have seen a marked increase in liquidity, and the transition to CCS priced off risk-free rates should follow similar liquidity trends. Pricing screens and internal pricing models for CCS have transitioned to the new conventions.

Members discussed the implication for CAD denominated CCS, which are currently priced off CDOR. Some members expect that even though CDOR is currently not expected to be discontinued [in the foreseeable future], the market would likely transition to pricing CCS off CORRA, consistent with the trend globally, as CORRA becomes the dominant benchmark in Canada.

5 Enhancing buy-side adoption of the FX Global Code

A member from the Bank of Canada summarized the discussion of the CFEC buy-side outreach sub-group meeting. He noted that a key aspect of the committee's outreach efforts should be to raise awareness of the Code amongst buy-side firms. To increase adoption of the Code, it will be important to emphasise the principle of proportionality, whereby the steps a market participant takes to adhere to the Code will be guided by the nature, complexity, and scale of its FX market activity. In addition, adopting the Code would be consistent with many firms' ESG mandates. Pension funds, asset managers, and corporates who are relatively active in foreign exchange trading would be the types of firms that CFEC could target for its outreach efforts. It was also suggested that CFEC engage with industry associations and potentially participate in ESG conferences. Commercial banks could also raise awareness of the Code in conversations with clients, as well as in their on-boarding process for new clients. Finally, the Bank of Canada could do some targeted outreach and engage with international FX Committees to share perspectives on outreach efforts.

6 Workplan update

The Secretary updated members on the status of the CFEC survey on algorithmic trading in Canada. He noted that the survey design has been completed and will be sent out to participants shortly. He thanked CFEC members for providing a list of potential respondents and useful feedback on the survey questions.

7 Other business

The Chair strongly encouraged members to consider renewing their Statements of Commitment to be consistent with the updated version of the Code. He noted that the Bank of Canada has begun the process of reviewing its procedures and will refresh its Statement of Commitment when the process has concluded. He acknowledged that the changes to the Code will affect certain parts of the market more than others. He reminded members that GFXC leadership anticipate a period of up to 12 months for practices to be brought into alignment with the updated principles for those most affected by the changes. Firms can use the GFXC "gap analysis template" which has been updated to reflect the most recent changes in the Code to assist in ensuring their processes and procedures are consistent with the updated Code.

The Chair reminded members that September 30th is a new federal holiday to observe the National Day for Truth and Reconciliation and that the Canadian payments system will be closed. The next CFEC meeting is scheduled for November 16th.