

Minutes of the Canadian Foreign Exchange Committee

15:00 – 17:00

14 June 2022

Hybrid

Present: Stephen Best, Refinitiv
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 Lascale, Deutsche Bank
Jim McCrindle, Bank of America
Manuel Mondedeu, CIBC World Markets
Charles Perreault, Department of Finance, Canada
Gaétan Reid, State Street Global Markets
Elizabeth Steele, HSBC Bank Canada
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets

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

External speakers:

Bipan Rai, CIBC
Josh Matthews, CME
Ann Battle, ISDA

The meeting was conducted in-person with a video-conference option.

1 Adoption of Agenda

The Committee adopted the agenda as written.

2 FX market outlook

Mr. Bipan Rai, Head of North American FX Strategy at CIBC Capital Markets, presented the firm's outlook for currency markets. He noted that the pace of economic growth has slowed globally, with North American economies outpacing European and Chinese economic growth. Inflation in the US is likely to remain elevated reflecting higher prices for services, ongoing issues with supply chains and higher commodity prices as result of Russia's invasion of Ukraine. Inflation expectations also remain elevated. Despite higher interest rates, financial conditions are accommodative as real interest rates remain negative. He expects the Federal Reserve to raise interest rates aggressively in an attempt to lower inflation. As a result, he expects the US dollar to outperform most other currencies, especially the Euro and the Yen, where monetary policy remains very accommodative. The US dollar will likely benefit further from "safe-haven" flows if equity prices fall as the Federal Reserve raises interest rates.

Although the Canadian dollar has performed relatively well against non-US dollar currencies, Mr. Rai expects the Canadian dollar to weaken further against the US dollar. Although the Bank of Canada is also expected to raise interest rates to lower inflation, in his view the Bank of Canada will not be able to increase rates as much as the Federal Reserve as the Canadian economy is likely more sensitive to interest rates than the US economy. Higher interest rates in the US relative to Canada should lead to a weaker Canadian dollar against the US dollar. Mr. Rai noted that oil prices are providing limited support to the CAD as the energy sector's share of capital spending in Canada has declined over the years.

A member provided an update on Russian ruble trading on EBS. Off-shore trading volumes in the ruble have declined significantly as many participants have exited the market in compliance with the sanctions imposed on Russia. Top-of-book bid-offer spreads had initially widened to 4-5 times pre-invasion spreads but have recently narrowed to about 2 times pre-invasion spreads.

3 CME Globex Infrastructure

Mr. Josh Matthews from CME presented on the recent migration of EBS onto the Globex platform. EBS has moved away from an architecture with three separate matching engines to one with centralized liquidity. All major G10 spot FX pairs will be matched in a single liquidity pool in New York, while NDFs and emerging market currencies will be matched in London. The new architecture allows for a unified Application Programming Interface (API) with its other products, simplifies operational and credit procedures and allows for new order types.

4 The future of CDOR

Mr. Harri Vikstedt, Co-Chair of CARR, informed members that Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's regulated administrator, announced on May 16

that they will cease the publication of CDOR after June 28, 2024. He noted that CDOR-based derivatives and cash securities will transition to CORRA by the end of June 2023, with an extra year for loan products to transition before CDOR ceases to be published. CARR is also examining the feasibility of developing a forward-looking Term CORRA rate which could be used only for loans.

Ann Battle, Senior Counsel at the International Swaps and Derivatives Association (ISDA), discussed the implication of the RBSL announcement on the derivatives market. She noted that RBSL's statement constitutes an "Index Cessation Event" under its IBOR fallbacks supplement (and related protocol) which triggers the fallback spread adjustment for applicable CDOR based derivatives after June 28, 2024. The ISDA fallback spread adjustment applicable to those fallbacks was published, for all three remaining CDOR settings, by Bloomberg on RBSL's announcement. RBSL's announcement also triggers the fallback spread adjustment for CDOR based floating-rate notes that have CARR recommended fallback language.

5 Update on buy-side outreach initiatives

A member from the Bank of Canada updated the Committee on its ongoing outreach efforts to raise awareness of the Code amongst buy-side firms. Engaging with large pension funds has been reasonably successful and more pension funds have now signed the Statement of Commitment as a result of the Bank's outreach. The Bank of Canada will continue to work with the large pension funds who have not yet signed and will also engage with large Canadian asset managers to educate and encourage them to adopt the Code. Similar efforts are taking place in other jurisdictions and will be discussed at the upcoming GFXC meeting.

6 GFXC workplan

The secretary updated members on the proposed GFXC workplan. Encouraging buy-side adoption of the Code remains a high priority for the GFXC. The Committee will also examine ways to provide more guidance on the Principle of Proportionality and identify opportunities to embed the Code as part of firms' ESG mandates. The GFXC plans to conduct a survey on the effectiveness of the 2021 updates to the Code. The survey will also form the basis for the next review of the Code. The GFXC will continue to better understand developments in FX settlement risk. Finally, the Committee will look into aspects around fair access of FX market data to all market participants.

7 Other business

The Chair asked members for an update on the progress to renew their Statement of Commitment. He noted that the Bank of Canada refreshed its SoC earlier this year. Member organizations are in different stages of reviewing their operations to be consistent with the update Code and posting their new SoC.