

Minutes of the Canadian Foreign Exchange Committee

12:00 – 14:00

9 March 2023

State Street

Present: Stephen Best, Refinitiv
Dagmara Fijalkowski, RBC Global Asset Management
Lorne Gavsie, CI Global Asset Management
William Kellett, Scotiabank
Peter Kalamvokis, TD Securities
Russell Lascala, Deutsche Bank
Jim McCrindle, Bank of America
Manuel Mondedeu, CIBC World Markets
Charles Perreault, Department of Finance, Canada
Gaétan Reid, State Street Global Markets
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets
Jeff Roberts, CME
Tom Gillie, RBC Capital Markets

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

External speakers:

Lee Ferridge, State Street

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

1 Adoption of Agenda

The Chair welcomed members and thanked State Street for hosting the meeting. The Committee adopted the agenda as written.

2 Economic outlook

Mr. Lee Ferridge, Head of Multi-Asset Strategy at State Street Global Markets, presented his views on the global economic outlook. He noted that the US economy has remained very resilient despite 450 basis points of interest rate increases by the Federal Reserve. Part

of the resilience can be explained by the fact that the vast majority of US households have 30-year fixed mortgage rates and are therefore insulated from the higher interest rates, especially regarding mortgage payments. Further contributing to strong consumption in the US are a tight labour market, robust wage growth and still elevated excess savings. As a result, Mr. Ferridge expects inflation will remain elevated and the Federal Reserve will need to raise rates by an additional 100 basis points to lower inflation, which will ultimately result in a recession. He noted that historically, the US economy has always experienced a recession when the Federal Reserve has tightened monetary policy in response to inflation being above 5%. Reflecting his forecast of a recession, he expects equity prices to decline further. While the US dollar may appreciate further in the short term as the Federal Reserve raises rates further, he expects it to fall as the US economy slows.

He noted that the Canadian economy is more exposed to higher interest rates than the US economy. Mortgages in Canada have a much shorter duration, and households will feel the effects of higher interest rates when mortgages are renewed, which will negatively impact consumption. He expects only one more rate increase by the Bank of Canada. As a consequence of the divergence in monetary policy between the US and Canada, he expects the Canadian dollar will depreciate further against the US dollar but should outperform some other G10 currencies due to the higher level of interest rates.

One member provided an update on FX market functioning. He noted that despite the recent depreciation of the Canadian dollar, the FX market has been orderly. Bid-offer spreads have widened slightly but remain relatively contained by historical standards.

3 Summary of the December GFXC meeting

The Chair briefed members on the (virtual) GFXC meeting which was held in December. He informed members that Simon Manwaring, Global Head of Trading and Sales at NatWest Markets, has been selected as the new Co-Vice Chair for a two-year term to succeed Richard de Roos from Standard Bank. He noted that since the publication of Disclosure Cover Sheets in August 2021, three platforms now required liquidity providers to their anonymous venues to have signed the Code.

He updated members on the progress of the two working groups – the Proportionality Working Group (PWG) and the Code Adherence Working Group (CAWG). The PWG has been developing a web-based solution to simplify the process of adhering to the Code. The tool helps firms identify those FX Global Code Principles that pertained to their activities. The tool has been refined to reflect feedback from users in the testing phase and should be operational later this year. The CAWG has been exploring ways to enhance adherence of the Code amongst buy-side firms. Based on the feedback from a survey, they plan to use a “three-pillar” approach to increasing adoption of the Code: (i) increasing visibility of the Code through more active engagement with the press and social media, participation in industry conferences; (ii) partnering with industry groups and (iii) additional education and training.

Dagmara Fijalkowski, a member of CAWG informed members that since the GFXC meeting, the working group has been partnering with the CFA Institute to spread the word about the Code. She has [published an article on their “Enterprising Investor” blog](#) and a [podcast](#). The Chair thanked Ms. Fijalkowski for her contributions to the CAWG.

The Chair concluded his debrief of the meeting by highlighting discussions the GFXC had on the availability and policies around FX market data, a presentation by the ACI FMA on its ELAC Portal for the FX Global Code, and a presentation by the BIS on its work on Alternative Technologies for FX Trading and Cross Border Payments. The next GFXC meeting will take place in Mexico City on June 1st and 2nd.

4 G20 roadmap on cross-border payments

Mr. Umar Faruqi, Senior Policy Advisor at the Bank of Canada, provided an overview of the G20 cross-border payments roadmap. He discussed the goals of the roadmap and highlighted the groups’ achievements and future work agenda. He provided a synopsis of the CPMI’s work on increasing the adoption of payment versus payment (PvP) solutions for cross-border payments. He noted that while PvP solutions are widely available for FX transactions, they are not always used, which leads to increased FX settlement risk. He stressed that increased use of PvP solutions for FX transactions will require effort from both public and private sector stakeholders.

5 CARR update

Mr. Harri Vikstedt, Co-Chair of CARR, updated members on recent benchmark reform developments. He noted that the volume of CORRA based interest rate swaps traded since the “CORRA first” initiative on January 9th has grown rapidly. The data is now available on the CARR [website](#). CFIF has created a working group to study the implications of the cessation of CDOR on the BA market and potential alternative short-term investments. Finally, CARR is engaging with the ARRC to determine whether term CORRA could be used for cross-currency swaps to hedge loans based off term CORRA or SOFR.

6 Price adjustment in case of unscheduled holidays

Members discussed the issue of how to adjust the price of pre-existing FX transactions in the event of an unscheduled holiday. The secretary noted that currently there is no standard market practice to determine if the price on pre-existing FX transactions should be adjusted or not if the settlement date changes due to an unscheduled holiday. Some banks maintain the old price, while others adjust the old price by the theoretical forward points for the new settlement date. The GFXC would like to engage with industry to establish a market standard on how to adjust the price in such a circumstance. Some members had a preference to adjust the price with the forward points as it is economically correct and avoids mismatches where an FX instrument is used to hedge a money market exposure or vice versa. Some members suggested that not adjusting the price reduces operational risks,

especially for smaller trades when the economic value is relatively small. The secretary will provide the Committee's feedback to the GFXC.

7 Other business

The Chair briefed members on his participation in a panel with members from the Federal Reserve Bank of New York and Bank of Mexico at the TradeTech FX Conference. The topic of the panel was on the FX Code. The discussion focused on the benefits of adhering to the Code and how the Code has contributed to increased transparency and better functioning of the FX market. He noted that the session was well attended and raised awareness of the Code amongst buy-side attendees at the conference.

The next meeting will be held at the Bank of Canada in Ottawa on May 16th.