Minutes of the Canadian Foreign Exchange Committee

15:30 – 17:20
June 5, 2025
Bank of Canada

Present: Stéphane Lavoie, (Bank of Canada, co-Chair)
Dagmara Fijalkowski (RBC GAM, co-chair)
Kevin McCabe (Bank of America)
Manuel Mondedeu (CIBC World Markets)
Miro Vucetic (Citibank)
Sean Macdonald (CPPIB)
Mark Burnatowski (Scotiabank)
Jean-Philippe Blais (BMO Capital Markets)
Jian Cao (RBC Capital Markets)
Lorne Gavsie (CI Investments)
Peter Meech (OTPP)
Charles Perrault (Department of Finance)
Matthew Gierke (CME Group)
Audra Scharf (LSEG)
Martin Legault (National Bank Financial)
Zahir Antia (Bank of Canada, Secretary)
Harri Vikstedt (Bank of Canada)

External speakers:
Gerardo Garcia (GFXC Chair, Bank of Mexico)
Matt O'Hara (360T)
James Shanahan (LSEG)
Andrew Batchelor (LSEG)
Alex Cohen (Bank of America)

The meeting was conducted in-person with a virtual option.

1 Adoption of Agenda

The co-chair welcomed members to the meeting in Ottawa. He introduced the two external speakers who attended in-person - Gerardo Garcia, General Director of Central Banking Operations of Banco de México and Chair of the Global FX Committee (GFXC), and Matt O'Hara, CEO Americas of 360T.

The Committee adopted the agenda as written.

2 Update from the Chair of the Global FX Committee

Mr. Gerardo García, the Chair of the GFXC, provided an update on the GFXC's priorities for 2025. He expressed his gratitude to CFEC members for their noteworthy contributions to GFXC initiatives such as pre-hedging, FX data transparency, and promoting adherence to the Code. He reviewed the main outcomes of last year's review of the Code, which focused on providing guidance to reduce settlement risk, enhancing transparency obligations around certain types of delegated execution activity, and encouraging greater transparency and disclosures around how client data are shared with third parties. Market participants are strongly encouraged to review the amendments to the Code and renew their Statement of Commitment within 12 months of the publication of the Code. He noted that the key priorities for the GFXC for the upcoming year are (i) continue to promote adherence to the Code, (ii) analyze FX settlement risk and consider ways to mitigate it; and (iii) analyze the availability and use of reference rates for FX derivatives. Finally, he provided a preview of the agenda of the GFXC meeting in Singapore on July 3rd and 4th.

3 OTC derivatives clearing

Andrew Batchelor, Global Head, and James Shanahan, Head of Product of LCH ForexClear, presented on recent trends and future developments in OTC derivatives clearing. They noted that clearing FX derivatives trades with a central clearing counterparty creates efficiencies for margin and capital. FX options and non-deliverable forwards (NDFs) are the main instruments cleared on LCH ForexClear as they are subject to Uncleared Margin Rules. Currently, the volume of FX swaps and outright FX forwards cleared is relatively small, although there is opportunity for this to grow. They highlighted that since the introduction of the Standardized Approach for Counterparty Credit Risk (SA-CCR), there has been significant growth in participation in capital optimization runs. The objective of these periodic runs is to manage down counterparty risk, with market-risk neutral packages of FX forward trades to re-balance risk between counterparts. Finally, they noted that LCH ForexClear plans to clear CAD spot and FX options, and cross-currency swaps in the future.

4 Evolution of technology in the FX market

Matt O'Hara, CEO Americas, of 360T, presented on the evolution of technology in the FX market over the past decades and its impact on growth in FX volumes. He noted that since the introduction of the first multibank and single dealer electronic platforms in the early 1990s, the FX market has become significantly more electronic and automated. The launch of the first electronic communications networks (ECNs) in the early 2000s, coupled with the introduction of Application Programming Interface (API) trading and straight through processing, contributed to the growth of high-frequency and algorithmic trading. These technological developments resulted in a significant increase in FX volumes. In the past decade, a proliferation of ECNs, Execution Management Systems (EMS), non-bank liquidity providers, transaction cost analysis (TCA), automation and real time analytics, in addition to the increasing electronification of FX Forwards, Swaps, NDFs and Options, have led to further growth of the FX market.

He emphasised that the FX Global Code has also contributed positively to the evolution of the FX market by increasing transparency, market fairness, and client confidence. Thus far, 26 e-trading platforms have publicly committed and confirmed adherence to the Code. Some platforms, such as 360T, have gone a step further and required, to varying degrees, that only market makers that adhere to the Code can make prices for certain types of trading activities.

He explained that FX Automation can deliver numerous benefits to buy-side firms, including increased productivity and transparency in addition to reduced operational risks while still achieving best execution. He elaborated on this by demonstrating the productivity gains from increased automation with a case study of how a client saved several hours per month and hundreds of hours per year of labour by automating their FX trades. Automation also improved trade execution for this client. Finally, he highlighted a few priorities for buy-side firms for further technological investments – such as better access to non-Spot FX market data, workflow automation, improved TCA – and noted a growing interest in using independent FX algos to complement existing bank offerings.

5 FX market outlook

Mr. Alex Cohen, FX strategist at Bank of America, presented his outlook for the US dollar and recent trends in FX markets. He expects the US dollar will depreciate further primarily reflecting slower US economic growth due to increased policy uncertainty and the imposition of tariffs by the US administration. He noted that the US dollar has decoupled from interest rate differentials recently. Although he does not expect the Federal Reserve will cut rates in 2025 (but will likely have to cut rates more aggressively in 2026), he highlighted that higher US interest rates have not been supporting the US dollar. The currency has been driven more by relative equity market performance (US equity markets have under-performed global equity markets) and rising term premium in the US. Increased policy (and policy implementation) risks emanating from the US, along with a broader push for economic and foreign policy isolationism in the US, has many international investors reviewing their allocations/exposure to US assets and the US dollar. While he does not expect the US dollar to lose its “safe haven” status, a gradual reallocation of foreign investments away from the US dollar or an increase in US dollar hedging by foreign investors should weigh on the currency.

The main risks to his outlook for a weaker US dollar are (i) the US economy remains resilient in the face of policy uncertainty; (ii) de-escalation of trade tensions, especially between the US and China; (iii) out-performance of US equity markets relative to global equity markets; and (iv) a fiscal bill in the US that avoids a growth shock while steering the debt trajectory back from an unsustainable path.

Mr. Cohen expects the Canadian dollar to appreciate modestly from current levels by the end of the year. A weaker US dollar and expected outperformance of Canadian equities should support the Canadian dollar. A downside risk to this view is that the Bank of Canada could cut its policy rate three more times in 2025, as core inflation is expected to decline as the economy slows.

Members discussed FX market conditions and volumes during the recent market volatility. They agreed that volumes had increased and that markets continued to function well. The member from the CME group noted that April 2025 saw the highest volumes since March 2020 for EBS Market volumes (Spot and NDFs), and a 53% increase over April 2024. While there was an increase in volatility and bid-offer spreads widened, spreads remained tight relative to the increased volatility. FX futures volumes also surged in the first four months of 2025. The member from LSEG echoed similar comments. Volumes on the Refinitiv Matching platform increased markedly on days when tariffs were announced or implemented.

6 FX Global Code outreach

A representative from the Bank of Canada informed members that it has begun to re-engage with buy-side firms, notably large public pension funds and asset managers, to educate and promote the benefits of adhering to the Code. Members agreed that a small CFEC working group should be established to better co-ordinate and target outreach efforts with buy-side participants and corporates. The co-chair also informed the Committee the CFA institute is planning to host a webinar on the Code. Finally, she noted that the GFXC's Motivation for Adherence Working Group will be sending out letters to large corporations active globally in FX markets to introduce them to the GFXC, FX Code, and tools that facilitate adoption of the Code.

7 Other business

The next CFEC meeting will be held on September 23rd in Toronto.