Minutes of the Canadian Foreign Exchange Committee Meeting

12:30 – 14:30
May 21, 2026
TD Securities

1 Introduction

The co-chair welcomed members and thanked TD Securities for hosting the meeting. She welcomed Sebastian Sierotnik, Head of Developed Currencies, as the new representative from the CME to the Committee, who replaces Mathew Gierke.

2 Geopolitical and economic outlook

Mr. Roman Schwiezer, Managing Director at TD Cowen Washington Research Group, presented on the key themes in U.S. foreign and defense policy under the Trump administration and related implications for industry, procurement, and alliances. He characterized the administration's national security policy as one of "peace through strength", with an America-first, economic focused national security strategy. Strategic priorities include treating China as the central competition, and pushing Europe to "stabilize, de-risk, and de-depend," with stronger defense spending and an expedited resolution to the conflict in Ukraine. The strategy has a renewed focus on the Western Hemisphere, seeking to block extra-regional influence over strategic assets.

He noted that President Trump's policy emphasizes restoring U.S. economic and national security strength by pursuing balanced, reciprocal trade and eliminating what the U.S. Administration views as unfair foreign practices. It calls for securing critical supply chains, expanding access to essential minerals, and reindustrializing the U.S. economy through reshoring of manufacturing and strategic tariffs. Strengthening the defense industrial base is framed as essential for military readiness. Finally, it seeks to achieve energy dominance and preserve U.S. leadership in global finance.

Globally, spending on defense is expected to continue to increase, after reaching a record high of $2.9 trillion in 2025. The U.S. defense budget could be up to $1.5 trillion going forward, and NATO members also committed to increasing their defense budgets, to up to 5% of GDP.

Finally, Mr. Schweizer argued that although military attacks have subsided in the Middle East, the strategic end state remains unclear. Hostilities could re-escalate as there remains a gap between the U.S. and Iran's positions on nuclear disarmament, the lifting of sanctions and the re-opening of the Strait of Hormuz. Over the long term, the U.S. is expected to de-prioritize the region strategically due to its energy independence. He expects the focus going forward will be on security for Israel by containing Iran and freedom of navigation in the Persian Gulf.

Robert Both, Senior Canadian Economist at TD Securities presented his Canadian economic outlook. He noted that economic growth is stabilizing after a period of excess supply. Fiscal stimulus and higher oil prices are expected to lift GDP in 2026 and 2027, with the output gap closing by late 2027. Households have shown resilience: consumption remained strong in 2025 even as confidence weakened, supported by elevated savings concentrated among higher-income groups. However, rising fuel prices pose a growing burden, particularly for lower-income households. Trade uncertainty persists despite 85%-90% of Canadian exports to the U.S. currently are CUSMA compliant and thus exempt from tariffs. Labour markets remain relatively firm, though hiring has softened in trade-sensitive sectors. He expects headline inflation to increase in the near term due to higher energy prices. However, he believes the Bank of Canada will hold rates at 2.25% through 2026 as core inflation will remain contained.

Mr. Both noted that geopolitical uncertainty has weighed on the CAD, limiting any tailwind from higher oil prices. In the near-term, the CAD could weaken as strong economic data in the U.S. will lead markets to price in rate increases by the Federal Reserve. However, he believes that over the medium term, the convergence between Canadian and U.S. rates should provide support to the Loonie. In his view, the Federal Reserve will likely cut rates in 27Q1, while the Bank of Canada could potentially start increasing rates then.

3 Evolution of FX market structure

Mr. Sebastian Sierotnik, the new CFEC Representative from CME, updated the Committee on recent developments in CME's FX market structure, focusing on EBS, FX Link and FX Spot+ and their effects on liquidity, price discovery and execution quality. EBS remains an important primary venue for spot trading, handling large volumes during volatile episodes such as USD/JPY activity on 30 April 2026. Fragmentation and electronification of the FX market add complexity and underscore the growing importance of data in trading. In this context, EBS has reduced the minimum time a "quote" stays live across Spot and NDF markets, reduced the minimum price increments in some currency pairs, and is introducing a new matching system to increase determinism.

He provided an update on CME's FX Link and FX Spot+ products. These products enable firms that may not have access to the futures market to access FX Futures liquidity. FX Spot+ has over 70 participants now, including nearly 40 banks that do not trade currency futures. Volumes on the platform have increased significantly since September 2025. FX Link has seen an expanding diversity of liquidity providers since the launch of FX Spot+, in large part owing to price improvements and participation breadth. The combined structure – FX Link, FX Spot+ and FX futures – has enhanced spot liquidity while strengthening FX Link's role as an IMM swap venue.

4 Canadian dollar funding market update

A representative from the Bank of Canada presented on recent trends in the evolution of the Canadian Overnight Repo Rate Average (CORRA). He noted that CORRA's spread to the Bank of Canada policy rate in 2026 Q1 has been on average, slightly wider and more volatile than in the past. The main reasons put forward for the recent upward trend and volatility are (i) increased net client demand for repo; (ii) settlement balances stabilizing close to the upper end of the estimated steady state range; (iii) increased size and variability of the Receiver General auctions; and (iv) frictions from month-end/first of month seasonal factors (e.g., bond maturities, bank reporting dates).

Members discussed funding conditions in the FX swap market. They agreed that overall Canadian funding conditions remain benign. While there has been some widening in the front-end of the basis swap market, it has remained fairly rangebound. Asset managers and bank treasuries have generally been less active lending Canadian dollar balances than in the past. The long end of the swap market has also been contained, despite heavy Maple bond issuance by U.S. firms. This has been balanced with provincial issuance in international markets that has been swapped back to Canadian dollars.

5 Preview of GFXC meeting

The Secretary provided a preview of the GFXC meeting that will be held in Toronto in early June 2026. The meeting will include updates from the GFXC working groups and an update on FX market conditions from local committees in major jurisdictions. Panel discussions with industry representatives will focus on fast paced markets and recent developments in FX market structure in emerging markets.

6 Other business

The co-chair reminded members that the next CFEC meeting will take place on November 17th in Montreal.

Meeting participants:

CFEC members:
Stéphane Lavoie, (Bank of Canada, co-chair)
Dagmara Fijalkowski (RBC GAM, co-chair)
Tobi Jungerman (Bank of America)
Manuel Mondedeu (CIBC World Markets)
Miro Vucetic (Citibank)
Sean Macdonald (CPPIB)
Mark Burnatowski (Scotiabank)
JP Blais (BMO Capital Markets)
Lorne Gavsie (CI Global Asset Management)
Rob Palladino (JP Morgan Chase)
Dan Mazza (State Street)
Greg Debienne (TD Securities)
Audra Scharf (LSEG)
Martin Legault (National Bank Financial)
Timothy De Leon (OTPP)
Sebastian Sierotnik (CME Group)
Mark de Guzman (Bank of Canada)
Zahir Antia (Bank of Canada, Secretary)

External speakers:
Roman Schweizer (TD Cowen)
Robert Both (TD Securities)