

Minutes of the Canadian Foreign Exchange Committee

13:00 – 14:00

19 September 2023

Video conference call

Present: Stephen Best, London Stock Exchange Group
Dagmara Fijalkowski, RBC Global Asset Management
Lorne Gavsie, CI Global Asset Management
Greg Debiegne, TD Securities
Martin Legault, National Bank Financial
James McCrindle, Bank of America
Manuel Mondedeu, CIBC World Markets
Elizabeth Steele, HSBC Bank Canada
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets
Charles Perreault, Department of Finance, Canada

Stéphane Lavoie, Bank of Canada (Chair)
Wendy Chan, Bank of Canada (Interim secretary)
Harri Vikstedt, Bank of Canada
Thomas Thorn, Bank of Canada
Marie-Élodie Gabreau, Bank of Canada
Owen Zehr, Bank of Canada

External speakers:

Daragh Maher (HSBC)

The meeting was conducted as a video conference call.

1 Introduction

Following Grahame Johnson's secondment to the Department of Finance, Stéphane Lavoie, Managing Director of the Bank of Canada's Financial Markets Department, has been appointed as the new CFEC Chair. The Committee welcomed the new chair.

The Chair proposed a change to the governance of the Committee, with the potential addition of a private sector co-chair. This change would align the Committee with other Bank of Canada-initiated private sector committees such as the Canadian Fixed Income Forum or the Canadian Alternative Reference Rate working group. It would also reinforce that CFEC is intended to be an industry committee supported and facilitated by the Bank and help ensure that topics brought for discussion at CFEC are of relevance and interest to

Committee members. Members were asked to provide feedback on the proposal and invited to express potential interest for the role.

2 FX market outlook

Mr. Daragh Maher, HSBC Head of Research and US FX strategy, presented his firm's outlook for currency markets. This outlook sees a likely strengthening of the US dollar over the next year. Three of the main drivers for currency markets are relative interest rates, global growth, and risk appetite. The US dollar, as a safe haven currency, has a negative correlation to global growth and risk appetite. With these three factors in mind, Mr. Maher went over three potential scenarios over the next year: 1) US exceptionalism, wherein the US economy outperforms the rest of the world resulting in higher rates and a higher US dollar; 2) An extreme US or global recession (possibly as a result of potentially excessive central bank tightening), which, due to safe haven flows, could result in a higher dollar; and 3) A US and global soft landing, somewhere between scenarios 1 and 2, which could result in a lower US dollar. Recent economic data from Europe, the UK, and China suggest that the third scenario was less likely than the US exceptionalism scenario. Mr. Maher noted that markets currently price in more central bank policy cuts for the US than other markets. If these cuts are pushed out or priced out of the US curve, it could strengthen the US dollar.

Members discussed Mr. Maher's outlook, and the risks around it. In particular, if economic data releases from the EU, UK and China were stronger than expected, it could point to potential US dollar weakness. Members discussed secular US dollar trends, including reserve managers' gradual, multi-decade move to diversifying from the US dollar.

Members also discussed the Canadian dollar, which Mr. Maher noted as a potential outlier, which could potentially outperform other peer currencies, even in the face of the strong US dollar. While relative rates have recently been the most significant driver of the CAD, the CAD has begun to recently outperform the USD. Mr. Maher argued that the likely reason for this was the recent appreciation of oil prices.

3 June GFXC meeting debrief

Dagmara Fijalkowski provided an overview of the Global Foreign Exchange Committee's (GFXC) June meeting. A highlight of the meeting was the introduction of a proportionality [self-assessment](#) tool to the GFXC website. Companies and asset managers can answer a series of questions using the online tool and find out which aspects of the Code are most relevant to their firm. There was a discussion about potentially translating the tool website into other languages to improve accessibility.

The GFXC discussed developing a standard practice for changes to agreed FX settlement dates arising from unscheduled holidays. Although there is support for the idea, there is

not yet a consensus on the specific standard practice that would be recommended across the industry.

The GFXC is updating the survey questions in the BIS Triennial Survey that collect FX settlement data, including providing additional details to reduce ambiguity and potentially focus on FX settlement volume rather than turnover volume.

The GFXC will also be conducting a survey via local committees of major FX market participants on the FX Code to help assess any areas that need to be potentially addressed as a result of the Code's 3-year review cycle. The survey will be administered by the Bank of England. It will be launched in September and will be open for three weeks. The survey is broad, asking respondents questions including whether they have signed the code, what their rationale is for signing or not signing, what are the most relevant areas of the Code for the respondent, and what if any areas need to be reviewed.

4 Other business

Members were asked to prepare for a discussion on the impact of Bank of Canada FAD announcement timing on the 10am ET CAD option expiration at the Committee's November meeting.

The next meeting is scheduled for November 7, and will be in-person in Toronto.