

Minutes of the Canadian Foreign Exchange Committee

12:00 – 14:00
12 November 2024
Scotiabank

Present: Stéphane Lavoie, Bank of Canada (Co-Chair)
Dagmara Fijalkowski, RBC Global Asset Management (Co-Chair)
Audra Scharf, LSEG
Lorne Gavsie, CI Global Asset Management
Mark Burnatowski, Scotiabank
Peter Kalamvokis, TD Securities
Tobias Jungmann, Bank of America
Manuel Mondedeu, CIBC World Markets
Charles Perreault, Department of Finance, Canada
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets
Josh Matthews, CME
Jian Ciao, RBC Capital Markets
Sean Macdonald, CPPIB
Ivan Pelipenko, OTPP

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

External speakers:

Derek Holt, Scotiabank
Matthew Kulkin (WilmerHale, FXPA)
Megan O’Flynn (WilmerHale, FXPA)
Michael Margolis (CBOE, FXPA)
Cathrine Poulton (StateStreet, FXPA)

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

1 Adoption of Agenda

The co-chairs welcomed members to the meeting. They thanked Scotiabank for hosting the meeting.

The Committee adopted the agenda as written.

2 Economic and financial market outlook

Derek Holt, Head of Capital Markets Economics at Scotiabank presented his views on the potential implications of the US elections on the US and Canadian economies. He noted forecasting the outlook is challenging due to the uncertainty around the incoming US administration's policies on trade tariffs, immigration, and fiscal policy. However, based on certain assumptions for policies that were highlighted during the election campaign, he believes that US GDP growth in 2025 will likely be higher than initially forecast, while growth in Canada and other regions will be revised lower. Indeed, he expects US economic growth to outpace Canadian economic growth in 2025. Inflation in the US in 2025 will also likely be revised higher partly driven by higher tariffs. With the US economy already operating in excess demand, additional fiscal stimulus could cause the US economy to overheat, contributing to even higher inflation. As a consequence, he now expects the Federal Reserve to pause its rate cutting cycle sooner than initially forecast.

Although he expects Canadian GDP growth will be revised lower for 2025 due to the negative impact of US trade policies, he still forecasts GDP growth to pick up in Canada compared to 2024. He noted that Canadian consumers have significant excess savings, which should support consumption going forward. The housing market should pick up in 2025 due to a combination of lower interest rates, a structural supply shortage of housing, and the recent changes to mortgage rules announced by the federal government. He expects the Bank of Canada will cut rates further as inflationary pressures ease and downside risks to growth increase.

3 FX market conditions

Members discussed FX market conditions and trading volumes. Jian Ciao from RBC noted that FX markets have been functioning well. FX volatility increased prior to the US election but declined once the risk event passed. This was particularly noticeable in short-dated FX volatility. However, uncertainty around the economic outlook remains elevated, which is pressuring the long-end of the FX volatility curve. Implied FX volatility in USDCAD remains lower than its peers.

Audra Scharf from LSEG provided an update on volumes traded on LSEG's FX venues. The average daily volume of USDCAD traded on FX venues was about \$25 billion in Q3, a slight decline from Q2. Volumes on Request for Quote venues increased in 2024 while volumes on the Spot Matching venue have been relatively stable over the past four years. This is consistent with the trend seen in other currency pairs.

A representative from the CME Group presented on FX volumes traded on the CME. Since May, EBS average daily volume has grown month-over-month, with volumes peaking in August. Going into October and the lead-up to the US election, there has been a seasonal slowdown in trading activity. He further provided examples that demonstrate that volumes traded on EBS tend to increase when markets become more volatile. Finally, he provided an overview of CME's FX Spot+ product that is expected to launch in 2025. It will be an

anonymous, all-to-all spot FX central limit order book, connecting the OTC spot and FX futures market. The currency pairs that will initially trade on FX Spot+ are AUD, CAD, GBP, NZD, MXN, CHF, EUR, JPY.

4 Update on FX Global Code review

Members discussed the recent draft amendments to the FX Global Code proposed by the GFXC Working Groups. The GFXC issued a Request for Feedback on proposed FX Global Code and Disclosure Cover Sheets amendments in October. The GFXC received several comments on the specific proposals, which were reviewed by the FX Data and FX Settlement Risk working groups. The groups will assess the merits of the comments and look to incorporate the feedback as deemed appropriate into the final version of the amendments to the Code and Disclosure Cover Sheets. This will be presented to GFXC members at the upcoming GFXC meeting in December. The GFXC aims to finalize and publish the changes shortly thereafter, along with a document motivating and summarizing the key amendments.

5 Regulated FX Derivatives Trading Venues: Promoting Fair and Orderly Markets

Regulated FX Derivatives Trading Venues: Promoting Fair and Orderly Markets
Representatives from the Foreign Exchange Professionals Association (FXPA) presented their white paper “Regulated FX Derivatives Trading Venues: Promoting Fair and Orderly Markets”. They noted that while the spot FX market is an unregulated market, derivatives markets tend to be regulated. As a result, many FX derivative trading venues are regulated. However, some FX derivatives trading venues are unregulated –but potentially are acting in capacities similar to regulated FX venues—and therefore could fall into a regulatory “grey zone”. FXPA stated that, as discussed in the white paper, regulated FX venues are required to comply with strict rules and incur significant costs of compliance, and therefore market participants acting in functionally similar ways may be subject to an uneven competitive environment. Certain trading volumes, such as those for non-deliverable forwards and FX options, appear to be shifting from regulated to unregulated FX derivatives trading venues. FXPA supports the development of a regulatory framework that treats functionally similar market participants similarly in order to promote a fair and orderly market. FXPA also encourages regulators to support regulated FX venues by decreasing regulatory cost burdens, including through allowing regulatory equivalence across jurisdictions for regulated FX venues.

6 Other business

The co-chair reminded members that the GFXC meeting will be held virtually on December 5th and 6th. In addition, two representatives from the Bank of Canada will be attending the inaugural FX Market Structure Conference hosted by the Federal Reserve Bank of New York. A member from the Bank of Canada will also participate on a moderated panel on the FX Global Code at the annual TradeTech FX USA conference in

early 2025. Finally, the CFEC Secretary will work with members to find meeting dates for 2025.