Minutes of the Canadian Foreign Exchange Committee

12:00 – 14:00
20 February 2025
RBC Capital Markets

Present:
Stéphane Lavoie, Bank of Canada (Co-Chair)
Tobias Jungmann, Bank of America
Daniel Mitchell, RBC Global Asset Management
Chris Naylor, LSEG
Lorne Gavsie, CI Global Asset Management
Mark Burnatowski, Scotiabank
Peter Kalamvokis, TD Securities
Manuel Mondedeu, CIBC World Markets
Gaétan Reid, State Street Global Markets
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets
Matthew Gierke, CME
Jian Cao, RBC Capital Markets
Sean Macdonald, CPPIB
Peter Meech, OTPP

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

External speakers:
Elsa Lignos, RBC Capital Markets
Janet Dawson, Global Financial Markets Association

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

1 Adoption of Agenda

The co-chair welcomed members to the meeting. He thanked the member from RBC Capital Markets for hosting the meeting. The co-chair welcomed Peter Meech to the Committee as the new CFEC representative from Ontario Teachers Pension Plan replacing Ivan Pelipenko.

The Committee adopted the agenda as written.

2 FX Market Outlook

Ms. Lignos, Head of FX Strategy at RBC presented her FX market outlook. She expects the US dollar will consolidate around current levels. She argued that the current value of the US dollar already incorporates expectations that the US economy will outperform most major global economies. This optimism is reflected in consensus growth forecasts and investor positioning in the US dollar. However, she cautioned that the outlook is clouded by the uncertainty around the imposition of tariffs by the current US administration. She highlighted two upside and downside risks to the US dollar over the medium term. On the upside, the US imposition of aggressive tariffs for a long period and/or the re-emergence of higher US inflation leading to higher yields would likely lead the US dollar to appreciate. According to Ms. Lignos, unexpected US economic weakness that causes the Fed to cut rates faster than expected, or relative under-performance of US equity markets that would cause international investors to repatriate their US investments, are the two main risks that could result in a weaker US dollar.

She expects the Canadian dollar to remain around current levels in the absence of any tariffs being imposed on Canadian exports, consistent with her view on the US dollar. The decline in USDCAD from 1.48 to 1.42 primarily reflects the pricing out of the “tariff premium” by investors. She noted that in the short-term, there is a risk that the Canadian dollar could appreciate marginally as recent Canadian economic data has been slightly better than expected. However, the imposition of tariffs could push the Canadian dollar significantly lower.

Members discussed FX market functioning around the threat of tariffs. It was noted that spot volumes and volatility increased significantly at the beginning of February. However, despite the elevated volatility, members remarked that FX markets functioned relatively well. Since the postponement of the tariffs, USDCAD has retraced, volatility has normalized, and the FX options market has largely priced out the risk of tariffs.

3 Update from the Global Financial Market Association (GFMA)

Ms. Janet Dawson, Managing Director, Global FX Division (GFXD) of the GFMA, provided an overview of the GFXD and an update of its priorities for 2025. The GFXD was formed in 2010 to represent the FX interests of its 25 members. She outlined five main priorities for 2025:

I. Reduce FX settlement risk: The GFXD is actively promoting a coordinated approach to lowering settlement risk across the global FX ecosystem. It is engaging with market participants including buy-side firms, custodians and non-GFXD banks to promote the use of the settlement risk waterfall utilized by the GFXC.

II. Improving FX market resiliency: The GFXD is working with its members to improve resilience in the FX market, especially to ensure FX settlement continues in the event an FX settlement system goes down. One of the key challenges identified is that there is no globally accepted industry trusted source or centralized source of information in the event of an outage. They are assessing options to develop a “golden source of information” for the FX market. They are also engaging with SWIFT to better understand their resiliency and contingency plans and finally, to increase awareness and training in relation to cyber risks, such as phishing.

III. FX Trading Venue Control: A fine recently levied on a US bank has increased focus on trading venue surveillance, control and governance processes. The GFXD has produced a "Trading Venues Questionnaire Template" accessible for FX market participants, to help standardize data and topics/questions of interest.
IV. Digital Money and FX: There have been multiple product (i.e. tokenisation) and regulatory, (e.g. EU MiCA) developments across the digital landscape. There would likely be implications for FX markets, mainly through settlement of cross-border payments. GFXD is working on Project Guardian with the MAS to explore ways "on-chain" execution could improve cross-boarder payments.
V. Future of FX project: The GFXD has commenced work on a "Future of FX" Project to help understand the impact of the significant changes occurring in the FX market. This is the third report and will be conducted over the next six months. All FX market participants are encouraged to participate in a Survey, which will help inform the final report. All respondents that complete the survey will receive a copy of the survey results.

4 IOSCO Consultation Report on Pre-Hedging

A representative from the Bank of Canada informed members that the Board of the International Organization of Securities Commissions (IOSCO) published a Consultation Report on Pre-Hedging in November 2024 with responses expected by February 21. The Report offers a definition of pre-hedging and proposes a set of recommendations to guide regulators in determining acceptable pre-hedging practices and managing the associated conduct risks effectively across a range of financial instruments, including equities, fixed income, currencies and commodities. He noted that the recommendations are broadly consistent with the GFXC's Report on Pre-hedging published in July 2021. Members were encouraged to provide feedback to the Consultation. IOSCO anticipates providing a final report to its members by the end of 2025.

5 Renewing Statement of Commitment

The co-chair reminded members that the GFXC has recommended that all Market Participants should renew their Statement of Commitment (SoC) in the next 12 months, following the publication of the recently updated FX Global Code. The GFXC considers that a 12-month period should be sufficient for market participants to align their practices with the changes to the Code's principles. More generally, the GFXC expects that all Market Participants conduct appropriate steps to ensure that their SoC remains accurate over time. The co-chair noted that the Bank of Canada has already started the process of reviewing the changes to the Code and ensuring its procedures remain aligned with the updated Code. He encouraged all CFEC members to do the same and renew their SoC over the next 12 months.

6 Summary of TradeTech conference

The secretary provided a summary of the recent TradeTech US conference held in Miami. He noted that the panel on the Global FX Code with representatives from the Bank of Canada, Bank of Mexico, and the Federal Reserve Bank of New York was well attended. The panel discussed the benefits of adhering to the Code, and the outcomes of the Code's recently completed three-year review.

The imposition of tariffs and the implications for the economy and US dollar were the predominant macro themes at the conference. He noted that there was broad consensus amongst most conference participants that the US dollar would appreciate, at least in the first half of 2025. Interest rate differentials are expected to continue to favour the US dollar. Tariffs are seen as an inflationary shock to the US economy and while they were also expected to negatively impact US growth, their impact to other countries growth was seen as larger. Some participants noted that US dollar positioning seemed now less stretched, further supporting a short-term rally in the US dollar. Given the uncertainty and unpredictability of the timing of the US administration's announcements on economic policies, participants believe that markets will remain volatile. The future of the US dollar as a reserve currency was also discussed at the conference. The US dollar is expected to remain the dominant currency for trade going forward, in spite of on-going speculation that its role in the global economy will decline. Conference participants noted that international trade continues to be denominated in US dollars and US capital markets remain the deepest and most liquid. Finally, there were several presentations on the evolution of technology in FX markets and the impact of AI on market structure and trading techniques.

7 Other business

The secretary reminded members that the BIS will be conducting its triennial survey of FX turnover in 2025. The banks that participate in the survey will be contacted by the Bank of Canada with the details of the survey.

The next CFEC meeting will be held in Ottawa on June 5. The next GFXC meeting will be in Singapore on July 3 and 4.