

foreign exchange committee



Minutes of the Foreign Exchange Committee (FXC) Meeting

Meeting: Nov 15, 2022

Host: Citibank

FXC Attendees

Chris Vogel (TD Securities) - Chair
Hemant Bajjal (Invesco)
Chris Chattaway (Goldman Sachs)
Yudhveer Chaudhry (Blackrock)
Jose Luis Daza (QFR Capital Mgmt)
Maria Douvas (Morgan Stanley)

Michael Eyre (Vanguard)
Anna Faustini (Societe Generale)
Akiko Hayata (Payden & Rygel)
Robert Kim (JPMorgan Chase)
Russell Lascala (Deutsche Bank)
Dan Lennon (CLS)

Rebecca Patterson (Bridgewater Associates)
Jodi Schenck (Citigroup)
Jessica Sohl (HC Technologies)
Chris Taendler (Barclays)
Bob Tull (Fifth Third Bank)
Sean Tully (CME Group)

Federal Reserve Bank of New York

Patricia Zobel
Lisa Chung
Michelle Ezer
Colleen Keegan
Kathleen Ramirez

Dan Reichgott
Sanja Peros
Thomas Noone
Anna Nordstrom
Shawei Wang

Federal Reserve Board of Governors

Emre Yoldas

U.S. Dept. of Treasury

Susie Han
Evan Klos

The Chair opened the meeting by noting the departure of Jose Luis Daza (QFR Capital Management) and thanked him for his significant contributions. Anna Nordstrom also thanked him for his many years of service to the FXC. Anna Nordstrom then announced that that Chris Vogel (TD Services) will also rotate off the FXC and thereby step down as Chair. She thanked Chris for his leadership and significant contributions as Chair in addition to his prior work as a longstanding member of the Committee. Yudhveer Chaudhry (Blackrock) was selected as the new FXC Chair, marking the first time that a buy-side market representative will hold this leadership position.

It was also announced that there will be changes in the FRBNY ex-officio member. Michelle Ezer will be replaced by Lisa Chung.

1. Preparation for the Global Foreign Exchange Committee (GFXC) Meeting

The meeting turned to a preview of the upcoming virtual GFXC meeting on Dec 5-6. An overview of the tentative GFXC agenda items included (i) recent FX Global Code (“Code”) developments, such as uptake of Code signatories and disclosure coversheets; (ii) topics around data availability in FX markets; (iii) update from the Proportionality working group; (iv) local foreign exchange committee updates on market conditions and Code outreach; and (v) a presentation from the Bank of International Settlements (BIS) Innovation Hub on Project Mariana, which explores alternative technologies for FX trading and cross border payments.

Members were also updated on the work of the GFXC’s Code Adherence working group, which has developed a three-pillar approach to raising motivation for adherence to the Code among market participants. The three pillars aim to increase visibility by partnering with industry groups and enhancing Code education and training. Further details will be presented at the GFXC meeting by Co-Vice Chair Stefanie Holtze-Jen, who is leading the working group.

2. BIS Triennial Central Bank Survey: OTC FX Turnover in April 2022

Members then discussed the results of the 2022 BIS FX Triennial survey, which captured FX market activity during the month of April. It was noted that FX turnover rose to \$7.5 trillion, an increase of 14 percent from the prior survey period (April 2019). This represented the lowest growth rate since the 2004 survey period.

The distribution of volumes by instrument was largely unchanged, except for FX swaps, which grew to 51 percent from 49 percent from the prior survey period and continued to comprise the largest share of transactions. FX options volumes remained similar to levels observed in 2019, with one member noting that it has become cheaper to simply hold dollars assets as protection against rising volatility in lieu of using options, given their elevated premiums. Trading in five geographic centers accounted for roughly 78 percent of total volumes, and the U.S. dollar remained the most common component of traded currency pairs—involved in 88.5 percent of FX trades.

Members observed that the Chinese renminbi experienced a notable increase in market share from the prior survey period, with USD/CNY now ranked the fourth most-traded currency pair. Members noted the potential increase in FX settlement risk associated with this given that the Chinese renminbi is a non-CLS currency. Additionally, interdealer volumes experienced a significant increase from the prior survey period, while activity by non-financial customers remained largely unchanged. While the increased use of internalization may be expected to reduce interdealer activity, members noted this trend could be related to a desire to reduce the warehousing of risk or potentially be the result of a growth in algorithmic trading.

3. Market Discussion

The meeting then transitioned to a discussion of market developments since the September FXC meeting. The discussion focused on recent U.S. dollar price action, the path of Federal Reserve policy, FX liquidity conditions, year-end global dollar funding conditions, and outlook for the reopening of China's economy.

- Members suggested that the long-term trend of U.S. dollar appreciation was understood as fundamentally driven. The more recent dollar sell-off was largely attributed to the below-expectations October CPI data release, though the move was also likely exacerbated by the unwinding of long-dollar positions. It was suggested that further dollar depreciation would require more evidence of improvement in the global growth outlook, Chinese economic reopening, improvement in the Russia-Ukraine conflict, and signs that Federal Reserve rate increases were having a meaningful impact on lowering inflation and relieving labor market tightness.
- In terms of Federal Reserve policy, members noted that this period may represent a transition phase from a focus on inflation to an emphasis on growth. While inflation may appear to be peaking, members mentioned that the move back to the 2 percent inflation target will require wage inflation to come down, which could prove difficult.
- Liquidity in the FX market has been better compared to rates markets, although members noted that bid-ask spreads had widened.
- Members highlighted that funding conditions this year may be more challenged than in the recent past given the Globally Systemic Important Banks (GSIBs) capital surcharge and Standardized Approach for Counterparty Credit Risk (SA-CCR) rules. Typically, the market will see arbitrageurs lend dollars at attractive levels, though they may not have the appetite to do so this year.
- The timing, speed, and success of the Chinese economic reopening was highlighted as a critical watchpoint in the context of the global growth outlook. It was estimated that China's zero-Covid policy has cost it 2.5 percent in GDP growth per year. Looking ahead, members noted that Chinese economic reopening is expected to occur slowly, and that it is unlikely that economic growth alone would have been enough to sustain renminbi appreciation.

The next FXC meeting is scheduled for February 9, 2022.