

**Minutes of the Canadian Foreign Exchange Committee
Meeting #97**

**Held at 12:00 p.m., Tuesday, 5 February 2019
Toronto**

Present: Christine Bourgeois, Caisse de depot et placement du Quebec
Paul Byrne, TD Securities (substitute)
Glenn Crotty, Bank of America Merrill Lynch
Dagmara Fijalkowski, RBC Global Asset Management
Lorne Gavsie, CI Investments
Sian Hurrell, RBC Capital Markets
Seth Johnson, NEX Group
William Kellett, Scotiabank
Russell Lascala, Deutsche Bank
Martin Legault, National Bank Financial
Arden Majewski, CIBC World Markets
Les Radvanyi, HSBC Bank Canada (substitute)
Gaetan Reid, State Street Global Markets
Jill Sigelbaum, Refinitiv
Miro Vucetic, Citi
Simon Watkins, BMO Capital Markets
Dino Kos, CLS Bank
Paul Clarke, Refinitiv
Nicolas Marion, Department of Finance
Paul Chilcott, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Zahir Antia, Bank of Canada
Ilya Vorobyev, Bank of Canada (Secretary)

The meeting was hosted at HSBC Canada.

1 Adoption of Agenda

The Committee adopted the agenda, as written. Christine Bourgeois, Paul Byrne, Martin Legault, Miro Vucetic and Simon Watkins attended their first meeting.

2 Tour de table – FX, Financial and Economic Developments

Members discussed FX market functioning and developments since the last meeting, including the outlook for 2019, liquidity conditions around year end and the unusual rapid JPY appreciation (“flash crash”) in early January 2019.

Members thought that geopolitical issues such as US-China trade and Brexit negotiations, the global growth outlook and monetary policy expectations would be important drivers for foreign exchange markets in 2019. Despite these factors, it was noted that FX volatility has remained low, with foreign exchange markets having for the most part been trading in well defined ranges despite the increased volatility in other asset classes. However, several members said that investor activity in FX markets had declined recently, reflecting increased geopolitical uncertainty, which might also partially explain low FX realized volatilities. Members agreed that a slower pace of monetary tightening by the Federal Reserve (now expected after the recent Fed’s communication) would, if it materialised, be beneficial for emerging markets currencies in 2019, although Chinese growth would also be an important driver.

Despite some relatively sharp moves in short-term cash funding rates, members said that there were no significant dislocations in cross-currency funding markets around the end of the year. Most members suggested that banks were better prepared for their year-end funding needs this year, having sought to secure their year-end funding needs much earlier than in prior years. Members also noted that some buy-side participants had been prepared to provide short-term funding liquidity on an opportunistic basis if rates rose high enough.

Members thought that the early-January Japanese yen “flash crash” was most likely triggered by Japanese retail stop loss orders, but amplified by illiquid market conditions given the time of the event: it occurred at an illiquid time of day, on a Japanese holiday; the CME FX futures market was not yet open; and therefore, most non-bank participants, including high-frequency trading firms, were not yet active. Despite the sharp move, members agreed that markets traded in a relatively orderly manner, with limited gapping, and that this was of much lesser significance than either the “Sterling flash crash” in October 2016, or the earlier “Yen flash crash” in March 2011.

3 Presentation by CLS Bank

Dino Kos from CLS Bank presented the recent trends in CLS settlement volumes, netting efficiency and settlement-related operational events. He provided members with an overview of other strategic priorities, including anticipated timelines for launching [CLSNOW](#), and the discontinuation of the existing USD/CAD Same Day Settlement service. Mr. Kos also explained CLS’s preparations for potential Brexit related issues.

4 Presentation by Refinitiv

Paul Clarke from Refinitiv presented analysis of recent trading patterns within the WMR “London close” benchmark fixings window. Mr. Clarke noted that major trends remained unchanged since the introduction of 5-minute fixing window in 2015. Daily trading volumes peak within the benchmark fixing windows, bid-ask spreads declined and larger transactions can be executed then with lower market impact. Mr. Clarke also discussed the breakdown of trading activity by banks and non-banking participants within the fixing window.

5 GFXC Meeting update

The Chair shared with the members a summary of the GFXC meeting that took place in Paris in November.

He mentioned that papers prepared by the “Cover and Deal” and “Transparency and Disclosure” working groups are expected to be published soon, along with the minutes of the meeting.¹ He also clarified that these papers would not change the Global Code itself, but would provide market participants with clarifications of some of the principles. The Chair notified members that the first scheduled, regular review of the Code was due in 2020.

Members discussed issues related to monitoring adherence to the Code as well as ways of increasing the number of buy-side firms signing the Statement of Commitment.

6 Overnight cross-currency swap conventions

The Bank provided an overview of the current work being undertaken by an international working group (lead by the Alternative Reference Rate Committee) on developing standard market conventions for inter-dealer cross-currency basis swaps that reference overnight risk-free rates. The Bank also provided an update of the work undertaken by International Swap and Derivatives Association on developing fallback language for derivatives contracts referencing inter-bank offered rates.

Next CFEC Meeting: 3 June 2019 in Ottawa.

¹ The [papers](#) and the [minutes](#) were published by the GFXC after the CFEC meeting.