EUROPEAN CENTRAL BANK

EUROSYSTEM

2 April 2020

Ad hoc teleconference of the ECB's Foreign Exchange Market Contact Group – 20 March 2020

Summary of the discussion

The foreign exchange (FX) market continued to face challenges, however overall it was functioning better than markets for most other asset classes. While spot markets were still functioning amid higher volatility and wider bid-offer spreads for major currencies, traders were encountering severe difficulties when trading in forward markets and swap markets. There were some tentative signs that conditions may have improved in the last two days, in particular after the action taken by central banks, but members highlighted that the impact of these measures would take time to feed through. Overall, the number of FX trades (partly due to smaller tickets) and volumes were up significantly compared with February. No outages or severe disruptions of technical infrastructures had been reported.

Some members were concerned that central bank liquidity was not being transmitted to asset managers and corporations. The main issue remained fragile funding, with some members characterising the funding markets as being frozen. Consequently, members from the asset management and corporate side asked whether central banks could do more, for example adding non-bank entities as official counterparties, and whether the ECB could start the commercial paper programme very swiftly. There was also concern that this programme may not be sufficient to ensure proper funding conditions for corporations, as it may not reach small and medium-sized enterprises which typically do not issue commercial paper.

Another serious concern that was widely shared related to the upcoming quarter-end flows and fixings. Owing to the large fluctuations in FX markets, end-of-month flows related to index rebalancing were expected to be very large and imbalanced at a time when banks had less operational and risk capacity. Since these flows would be concentrated at FX fixings, this was likely to create additional volatility and pressure on market functioning around the time of these fixings. One idea was floated of possibly extending the WM/R fixing window to ensure proper market functioning.

One last concern, which was also widely shared, related to the impact on trading conditions and overall liquidity if more market participants moved to remote working. In the event that a significantly larger share of staff, or all staff – in particular in the key FX centres, such as London and New York – were required to work from home, it was anticipated that this would cause extraordinary challenges to market functioning in terms of the ability to price, quote, conduct transactions and settle. Operational risks would be magnified in a scenario in which WiFi and cellular networks became overloaded and broke down.

These key takeaways would be shared with the Global Foreign Exchange Committee.