

Foreign Exchange Contact Group
Frankfurt, Tuesday 8 December 2009

SUMMARY OF THE DISCUSSION

1. Review of market developments

The Group reviewed and discussed the latest trends in FX markets, following the presentation made by Sean Shepley, head of FX research at Credit Suisse in London.

2. Japan cross border flows and outlook for the yen

Derek Halpenny, European head of global currency research at the Bank of Tokyo-Mitsubishi-UFJ made a presentation on the current state of Japan cross-border flows and what changes have occurred since the start of the financial crisis. He looked at cross-border flows from the perspective of institutional investors (domestic and foreign), retail and corporate clients and assessed what these flows indicate for the outlook for the yen in 2010. Domestic institutional investors' net purchases of foreign bonds have recently eased. Foreign investor participation in the JGB market (around 7% of holdings) is modest and has lately decreased. There has been a trend decline in global JPY reserve holdings since 2000. From a peak of 6.1% in 2000, the Japanese yen now accounts for 2.7% of world foreign reserves in constant terms. Retail flows show that appetite for investment trusts has not yet notably recovered, and that the retail sector has diversified from developed markets into emerging markets and high yielding currencies. Japanese corporate hedging activity has yet to pick up, as it was still at a new post-crisis low in October. Going forward, Mr. Halpenny expressed the view that the unwinding of the yen "carry trade" is probably complete and that retail investor outflows could re-emerge. Longer-term, the demographics of Japan point to a reduction in the trade surplus and a weakening of the Japanese yen.

3. Outlook for commodities

Fraser Phillips, senior base metals analyst at Royal Bank of Canada, made a presentation on the outlook for bulk commodities and base metals in 2010. According to Mr. Phillips, long term supply and demand dynamics should continue to support commodity prices in the medium to long term. Improving economic fundamentals, a weak US dollar and flows into investment funds have been key determinants of prices over the last three months. However, the near-term risk of a correction is rising, as some commodity prices appear to have risen ahead of fundamentals. Mr. Phillips showed in

particular that the levels of inventories and capacity utilisations do not point to a situation of excess demand.

4. Other business

Orazio Mastroeni, secretary of the Operations Managers' Group, made a debriefing of the last OMG meeting, which took place on 19 November.

Ivan Fréchard made a debriefing of the Global Foreign Exchange Committee meeting in Singapore.

The tentative 2010 work programme was discussed. A final version will be distributed soon for finalisation.

The next meeting will take place on 10 March 2009 from 13:00 to 16:00 at the ECB premises.

List of participants
Foreign Exchange Contact Group Meeting

on 08 September 2009

in CVI, 2nd floor

from 16:00 to 19:00

Participant's organisation

Bank of Tokyo Mitsubishi UFJ
 BHF Bank AG
 BNP Paribas BFI
 CECA
 Citigroup
 Credit Suisse
 Deutsche Bank AG
 Dexia BIL
 ICAP
 Morgan Stanley
 Nordea
 Royal Bank of Scotland
 Royal Bank of Canada
 Scotia Capital
 State Street
 UBS AG

Name of Participant

Mr Totsuka Shunichiro
 Mr Jörg Isselmann
 Mr Patrick Mauberque
 Mr Jose Manuel Villaverde
 Mr Holger Achnitz
 Mr Martin Wiedmann
 Mr Stefan Bender
 Mr Louis Macalli
 Mr John Nixon
 Mr Richard Oliver
 Mr Morten Tysnes
 Mr Roger Hawes
 Mr Ed Monaghan
 Mr Barry Wainstein
 Mr Christopher Freeman
 Mr Urs Bernegger

European Central Bank
 European Central Bank

Mr Francesco Papadia, Chairman
 Mr Ivan Fréchard, Secretary

Guest Speakers

BHF Bank
 CLS
 CECA
 Citigroup

Mr Philipp Nimmermann
 Mr Roger Rutherford
 Mr José Manuel Amor
 Mr Jeremy Hale

National Central Banks

Deutsche Bundesbank	Mr Clemens Werner
Banco de España	Mr Jose Luis Jimenez
Banque de France	Mr Emmanuelle Assouan
Banque Nationale de Belgique	TC 3331
Bank of Greece	Mr Francois Biquet
Banca d'Italia	TC 3231
Banque centrale de Luxembourg	Ms Maria Bekiari
Central Bank and Financial Services	TC 3055
Authority of Ireland	Ms Maria Lucia Marras
Central Bank of Cyprus	TC 1942
De Nederlandsche Bank	Mr Francois Zenner
Oesterreichische Nationalbank	TC 3522
Banco de Portugal	Mr William Molloy
Banka Slovenije	TC 2213
Národná banka Slovenska	Mr Costas Papadopoulos
Suomen Pankki	Mr Bob Copes
	Mr Wolfgang Hengelmüller
	TC 4324
	Mr Jorge Alves
	TC 3626
	Mr Peter Premrl
	TC 2841
	Ms Viera Pivarcova
	TC
	Mr Harri Lahdenperä
	TC 3814