

**Foreign Exchange Contact Group**  
Frankfurt, Wednesday 10 March 2010

**SUMMARY OF THE DISCUSSION**

**1. Implications of central banks' exit strategies on currency markets**

Derek Halpenny, European Head of Global Currency Research at the Bank of Tokyo-Mitsubishi-UFJ made an outline of exit strategies by the major central banks and the implications for the foreign exchange market. According to Mr. Halpenny, the Fed can be seen as the most advanced in exiting exceptional measures. The Fed is expected to start soon to drain excess liquidity, which should have a positive impact on the US dollar. On the other side of the spectrum, he expects the Bank of Japan to be very cautious in taking steps towards normalisation. More generally, the start of exit strategies means that yield differentials should resume their prime role as drivers of FX markets.

**2. The role of gold and SDRs in the global markets**

Barry Wainstein and Stefan Bender, FXCG members from Scotia Capital and Deutsche Bank respectively, presented on recent developments in the use of gold and Special Drawing Rights (SDRs) in global financial markets.

Mr. Wainstein showed some statistics about supply and demand dynamics on the gold market. On the supply side, rising gold prices have seen supply from scrap increase, while mine production has been stable and official sector sales were lately very low. On the demand side, demand for investment purposes has picked up, while jewellery demand fell markedly. In terms of geographical breakdown, China is now the largest producer, and is about to take over as largest consumer. Gold as a percentage of total official reserves is dropping, even though official holdings of gold (in tons) have recently increased, as India, China and Russia have been adding to their gold reserves. Mr. Wainstein showed the importance of retail and institutional investor demand for gold (via the ETF market), and that speculators played an important part in the late 2009 gold rally. Going forward, gold drivers are now more mixed than they were in 2009.

Mr. Bender first described the purpose and structure of SDRs. The SDR is an international reserve asset created by the IMF. SDRs are allocated to member countries in proportion of their IMF quotas. SDRs are not a currency but can be exchanged for freely usable currencies via the IMF. Its value is based on a basket of four key international currencies. A few countries peg their currencies against SDRs and it is used as a unit of account by the IMF and several other international organisations.

There is however neither private market for SDRs, nor a strong market interest to trade them as a basket.

Discussions around a wider use of SDRs as a reserve asset have emerged with the financial crisis. In July 2009 the Executive Board of the IMF approved a framework for issuing SDR notes to the official sector and several country members have expressed their interest in buying such paper. The next re-weighting of the SDR basket will take place in late 2010.

### **3. Regulatory changes and their implications for FX markets**

Chris Freeman and Roger Hawes, FXCG members from State Street and RBS respectively, made a presentation on the regulatory efforts that are under way in Europe and in the US and their potential implications for foreign exchange markets.

Mr. Freeman made an update on regulatory proposals in the US and in the EU, and in particular on the legislative process which is under way as regards OTC derivatives.

Mr. Hawes reflected on potential actions required as regards market structure to align banks with regulatory demands. He stressed the role of CLS as cornerstone of the FX industry and the efforts that are under way in order to increase pre and post trade transparency.

### **4. Other Business**

Orazio Mastroeni, secretary of the Operations Managers' Group, made a debriefing of the last OMG meeting, which took place on 4 February, and of the last liaison call of FX committees, which took place on 4 March.

The next meeting will take place on 24 June 2010 from 13:00 to 16:00 at the ECB premises.

## List of participants

### Foreign Exchange Contact Group Meeting on 10 March 2010

#### Participant's organisation

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

#### Name of Participant

Mr Totsuka Shunichiro  
Mr Rafael Martorell  
Mr Bernard Sinniah  
Mr Jose Manuel Villaverde  
Mr Christian Drueke  
Mr Sven Schneider  
Mr Stefan Bender  
Mr Luigi Macalli  
Mr Steve Toland  
Mr Richard Oliver  
Mr Morten Tysnes  
Mr Roger Hawes  
Mr Ed Monaghan  
Mr Barry Wainstein  
Mr Christopher Freeman  
Mr Darren Coote  
Mr Nick Crawford

European Central Bank  
European Central Bank  
European Central Bank

Mr Francesco Papadia, Chairman  
Mr Paul Mercier  
Mr Ivan Fréchard, Secretary

#### Guest Speakers

Bank of Tokyo Mitsubishi UFJ      Mr Derek Halpenny

#### National Central Banks

Banque Nationale de Belgique	Ms Katrien Baetens	Teleconference
Banco de Espāna	Mr Clemente Fernandez	
Bank of Greece	Ms Maria Bekiari	Teleconference
Banca d'Italia	Ms Maria Lucia Marras	
Central Bank and Financial Services Authority of Ireland	Mr William Molloy	Teleconference
Central Bank of Cyprus	Mr Andreas Mylonas	Teleconference
Central Bank of Malta	Mr Mario Bugeja	Teleconference
Deutsche Bundesbank	Ms Christiane Glockmann	
De Nederlandsche Bank	Mr Dennis Pels	
Oesterreichische Nationalbank	Mr Wolfgang Hengelmüller	Teleconference
Banka Slovenije	Mr Peter Premrl	Teleconference
Suomen Pankki	Mr Tuomas Välimäki	Teleconference