



EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt, Tuesday 6 February 2007

SUMMARY OF THE DISCUSSION

1. Presentation by FX Marketspace

Rick Sears, President and Chief Sales Officer and Bryan Hunter, Chief Operating Officer at FX Marketspace presented the new FX platform called FX Marketspace. They described the concept as a centralised OTC FX execution venue with central clearing through CME and CLS settlements. According to FX MarketSpace the 50/50 joint venture of Reuters and CME should combine the strength of both companies, the matching engine, clearing facility and application interfaces from CME and the market standard Straight-Through-Processing (STP) and distribution network from Reuters. Final clients' anonymity is ensured via Prime Brokers'/Clearing members' access. The central clearer intermediates the credit risk thereby decreasing the need for credit lines between participants. In terms of market risk, the platform seems to authorise a global approach to risk with multilateral netting, collateralised margining in combination with other CME products. At the end of the process, the CLS settlement addresses the settlement risk. The new platform is expected to offer the advantages of an exchanged-based FX markets with secured settlements. It will be interesting to follow in the future the market penetration of this new platform in the FX world where many electronic platforms already co-exist.

2. Review of market developments

The Group reviewed and discussed the latest trends in financial markets, particularly in FX markets.

3. The longevity of yen carry trades

Paul Chertkow, Head of Global Currency Research, Bank of Tokyo Mitsubishi UFJ, addressed the issue of the yen carry trades and their longevity. He elaborated on the various ways to look at yen carry trades in a broad sense. Apart from the FX positions whereby the yen is borrowed (short yen) to be invested in another currency (long another currency) that many short-term market participants have been taking on, many Japanese domestic agents have also been participating in "yen carry positions". Even though domestic participants do not need to borrow the yen, institutional or retail investors have benefited from these carry positions by selling yen to diversify their portfolio into foreign assets. Capital flow data from the Japanese Ministry of Finance provide some anecdotal evidence that the amounts have been substantial. These flows may not reverse soon as the level of international diversification of Japanese investors is assessed to be still very low. Similarly, Japanese export companies may also have contributed to the weakness of the yen by maintaining low hedge ratios, thus also taking advantage from the positive carry.

4. Currency risk management – Emerging markets

Yasmin Khan, Director, FX advisory at Citigroup Investment Bank, presented a framework for the currency risk management in emerging markets. Costly systematic hedging could be avoided thanks to a system of early warning signals. Early warnings are based on fundamental macro data and financial variables that help optimise hedging management with hedges concentrated on period of higher risks. The framework that is proposed to and followed by some Citigroup clients increases the efficiency of dynamic hedging.

5. Other business

- a.) The OMG secretary, Annemieke Bax, informed the group about the global conference that is hosted by the ECB on 23-24 April 2007 in Frankfurt. She updated the group on the conference agenda, the moderators, speakers and the status of the invitations and registrations. Furthermore, she briefly informed the group about the upcoming OMG meeting (7 February 2007) and the topics on the agenda such as the OMG work programme for 2007 and some follow up concerning the requested changes to the contingency teleconference arrangements. (<http://www.ecb.int/paym/groups/omg/html/index.en.html>).
- b.) The secretary presented the work programme for 2007 and the initiative of the members to work on the items of the work programme. For the next meeting a joint presentation by Morgan Stanley and BNP Paribas is scheduled on algorithmic trading followed by a discussion.
- c.) The new member list for 2007 was distributed. The next meeting will take place on 23 May 2007 at the ECB premises.

Annex 1**LIST OF PARTICIPANTS**

Participant's organization	Name of participant
ABN AMRO	Mr Claes von Holten Lindholm
Bank of Tokyo-Mitsubishi UFJ	Mr Paul Chertkow
BBVA	Mr José Sanchez
BHF-Bank	Mr Joerg Isselmann
BNP Paribas	Mr Patrick Mauberque
CECA	Mr José Manuel Villaverde
Citigroup	Mr Bernard Sinniah
Credit Suisse	Mr Toby Cole
Deutsche Bank AG	Mr Peter Thoma
Dexia-Bil	Mr Joseph Hensen
Dresdner Kleinwort Wasserstein	Mr Alex Finos
Morgan Stanley	Mr Paul Blain
RBC Capital Markets	Mr Marshall Bailey
Royal Bank of Scotland	Mr Roger Hawes
State Street Global Markets	Mr Michael Kahn
The Bank of Nova Scotia	Mr Ian Hassler
Société Générale	Mr Serge Topolanski
UBS	Mr Reto Stadelmann
European Central Bank	Mr Werner Studener - Chairman
European Central Bank	Mr Torsti Silvonon
European Central Bank	Mr Etienne Port - Secretary
Banque Nationale de Belgique	Mr Christoph Machiels
Deutsche Bundesbank	Mr Peter Griep
Bank of Greece	Mr Panagiotis Pliatsikas
Banco de España	Ms Jose Luis Jimenez
Central Bank and Financial Services Authority of Ireland	Mr William Molloy
Banca d'Italia	Mr Antonio Marras
Banque centrale du Luxembourg	Mr Francois Zenner
De Nederlandsche Bank	Mr Jaap Teerhuis
Banco de Portugal	Mr Jorge Alves
Suomen Pankki	Mr Tom Alanen
<u>Teleconference attendance</u>	
Banque Nationale de Belgique	Mr Joris Bernagie

Oesterreichische Nationalbank

Mr Walter Sevcic

Suomen Pankki

Mr Jouni Timonen

Banka Slovenije

Mr Matevz Zbasnik

Guest speakers

Mr Rick Sears, and Bryan Hunter (FX Marketspace)

Ms Yasmin Khan (Citigroup)