



EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt, Tuesday 5 February 2008

SUMMARY OF THE DISCUSSION

1. Review of market developments

The Group reviewed and discussed the latest trends in financial markets, particularly in FX markets, following the presentation made by Steve Malyon, Currency Strategy at Scotia Capital.

2. Nordic, Baltic and Eastern European currencies. The outlook for joining ERM II and the euro

Helge Pedersen, Global Chief Economist at Nordea, presented the recent developments in Nordic, Baltic and Eastern European currencies against the background of the prolonged sub-prime crisis and financial market uncertainty. He highlighted the risks for those currencies stemming from a slower economic growth in the region and from higher commodity prices that had a notable effect on inflation. These countries export significantly more to the European Union than to the US and might to some extent be immune to a slower economic growth in the US. However, they may be impacted by the tighter credit conditions following the difficult market conditions in the credit markets. He highlighted the outlook for some of these currencies to join the euro and for some of the others the ERM II.

3. Analysis of the result of the last triennial BIS FX survey and presentation of other private sector surveys

Alexandra Heath, BIS, presented the findings of the seventh triennial survey conducted in April 2007. The increase in daily foreign exchange turnover was significant, with the traditional FX turnover increasing by 69 percent to USD 3.2 trillion from 2004. The growth is slightly faster than the growth in trade and international capital flows. By instrument, half of the increase was driven by FX swaps (+80 percent). By counterparty, more than half of the increase in turnover was accounted for by transactions with other financial institutions such as hedge funds and pension funds. Possible explanations for this are the attractive returns offered by foreign exchange markets, international portfolio diversification and the increasing importance of algorithmic trading. Further analysis was provided on the latest turnover trends by currency pairs, locations and method of execution.

Toby Cole, Credit Suisse, looked at the other most regarded private sector surveys, in particular the Euromoney survey, which has an extensive history of 30 years. In spite of the different methodologies and its commercial character, the broad picture is in line with the findings of the BIS survey. This on-line survey is promoted by banks and this helps ensure a large number of participants. On the other hand, banks may increasingly use it as a marketing tool. The survey confirmed the current trends in foreign exchange markets such as the increasing share of leveraged funds, the further concentration in the business and the growing importance of electronic trading.

4. Other business

- a.) The Secretary of the Operations Managers Group (OMG) informed about the agenda of the meeting on 13 February 2008 and the work programme 2008.
(<http://www.ecb.europa.eu/paym/groups/omg/html/index.en.html>)
- b.) The Chairman informed about the second Global meeting of FX committees hosted by the Bank of England on 2 April 2008 and details about the tentative agenda were provided.
- c.) The next meeting will take place on 3 June 2008 from 13:00 to 16:00 at the ECB premises.

LIST OF PARTICIPANTS

Participant's organisation	Name of participant	
Bank of Tokyo-Mitsubishi UFJ	Mr Shunichiro Totsuka	
BBVA	Mr Jose Manuel Sanchez	
BHF-Bank	Mr Jörg Isselmann	
BNP Paribas	Mr Patrick Mauberque	
CECA	Mr Jose Manuel Villaverde	
Citigroup	Mr Bernard Sinniah	
Credit Suisse	Mr Toby Cole	
Deutsche Bank	Mr Stefan Bender	
Dexia-Bil	Mr Joseph Hensen	
ICAP	Mr John Nixon	
Morgan Stanley	Ms Sarah Edgington	
Nordea	Mr Morten Tysnes	
Royal Bank of Canada	Mr Ed Monaghan	
Royal Bank of Scotland	Mr Roger Hawes	
State Street Bank	Mr Chris Freeman	
Bank of Nova Scotia	Mr Barry Wainstein	
Société Générale	Mr Lars Hakanson	
UBS	Mr Reto Stadelmann	
Unicredit HVB	Mr Ben Welsh	
European Central Bank	Mr Francesco Papadia - Chairman	
European Central Bank	Mr Werner Studener	
European Central Bank	Mr Etienne Port - Secretary	
Banque Nationale de Belgique	Ms Axelle Waterkeyn	Teleconference
Central Bank of Cyprus	Mr Kyriacos Zingas	Teleconference
Deutsche Bundesbank	Mr Peter Griep	
Banco de España	Mr Jose Luis Jimenez	
Banque de France	Ms Emmanuelle Assouan	Teleconference
Bank of Greece	Mr Panagiotis Pliatsikas	
Central Bank and Financial Services Authority of Ireland	Mr William Molloy	
Banca d'Italia	Mr Antonio Marras	
Banco de Portugal	Mr Jorge Alves	
Banque centrale du Luxembourg	Mr Francois Zenner	Teleconference
Central Bank of Malta	Mr Saviour Briffa	Teleconference
De Nederlandsche Bank	Mr Paul Buijs	
Oesterreichische Nationalbank	Mr Wolfgang Hengelmüller	Teleconference
Banka Slovenije	Mr Matevz Zbasnik	Teleconference
Suomen Pankki	Mr Harri Lahdenperä	Teleconference

Guest speakers

Mr Steve Malyon, Currency Strategy, Scotia Capital
 Mr Helge Pedersen, Global Chief Economist, Nordea
 Ms Alexandra Heath, BIS