



EUROPEAN CENTRAL BANK

EUROSYSTEM

DGM/FRO/2008/045

## Foreign Exchange Contact Group

Frankfurt, Tuesday 3 June 2008

# SUMMARY OF THE DISCUSSION

### 1. Review of market developments

The Group reviewed and discussed the latest trends in financial markets, with a particular focus on foreign exchange markets, following the presentation made by David Simmons, Currency Strategy at RBS.

### 2. The growing importance of China and India in the region and in financial markets

**Stéphane Houriez**, (BNP Paribas), presented the recent evolution of the Chinese FX markets by first reviewing the regulatory environment and institutions. There are several schemes in place that control capital flows like the Qualified Foreign Institutional Investors, the Qualified Domestic Institutional Investors and the China Investment Corporation. The process of sterilisation of foreign reserves has been slowing down, leading to a substantial increase in base money and some dislocation in money market rates. After describing the Chinese foreign exchange trading system and currency framework, Stéphane reviewed the key challenges in developing the domestic financial markets: the intermediation of capital and the absorption of excess liquidity in the domestic market, the diversification of the public sector's investments in terms of currency and assets, the interaction between the currency developments and the developments of the domestic capital markets.

**David Simmons**, (RBS) described the key issues for India. After having had above potential growth for several years, inflation is reaching elevated levels. Indian authorities have so far used administrative and fiscal measures to control inflation. Market participants perceive that the Reserve Bank of India is keen to correct the Indian rupee overvaluation. Although the long term trend is still towards higher capital flows in view of the large capex needs, capital flows have eased for now and reserve accumulation, although still strong, is slowing down somewhat.

### 3. Presentation by a Hedge Fund

**John Floyd** (Floyd Capital) gave a presentation. Headquartered in New York, Floyd Capital manages \$75 million in macro and currency-only trading programs. The fund seeks to maximize investment returns by opportunistically investing across the spectrum of global currencies. The fund uses a directional, discretionary trading program with a primary focus on the developed markets and, to a lesser extent, on emerging markets. Investment ideas are the result of integrating the analysis of macroeconomics, geopolitics, technical factors, and market sentiment. The fund seeks to profit by exploiting the expected opportunities derived from this analysis. The fund's approach is to focus on the key variables at any given time and identify expected market mispricings. The fund then utilizes a strict risk management discipline in applying strategies. The results are generally uncorrelated to traditional indices and other managers in the sector.

### 4. Other business

- a.) The Secretary of the Operations Managers Group (OMG) informed about the outcome of the meeting on 13 February 2008.  
(<http://www.ecb.europa.eu/paym/groups/omg/html/index.en.html>)
- b.) Jörg Isselmann, BHF, reported on the second Global meeting of FX committees hosted by the Bank of England on 2 April 2008.
- c.) The next meeting will take place on 9 September 2008 from 13:00 to 19:00 at the ECB premises.

**LIST OF PARTICIPANTS**

<b>Participant's organisation</b>	<b>Name of participant</b>	
Bank of Tokyo Mitsubishi UFJ	Mr Shunichiro Totsuka	
BBVA	Mr Laurence George Watkins	
BHF Bank AG	Mr Jörg Isselmann	
BNP Paribas BFI	Mr Patrick Mauberque	
Citigroup	Mr Holger Achnitz	
Credit Suisse	Mr Toby Cole	
Deutsche Bank AG	Mr Stefan Bender	
Dexia BIL	Mr Louis Macalli	
HVB/Unicredit Group	Mr Ben Welsh	
ICAP	Mr John Nixon	
Morgan Stanley	Mr Christopher Nicoll	
Nordea	Mr Morten Tysnes	
Nova Scotia Capital	Mr Barry Wainstein	
Royal Bank of Canada	Mr Mark Iles	
Royal Bank of Scotland	Mr Roger Hawes	
Société Générale	Mr Serge Topolanski	
State Street	Mr Chris Freeman	
UBS AG	Mr Reto Stadelmann	
European Central Bank	Mr Francesco Papadia, Chairman	
European Central Bank	Mr Anna Nordström	
European Central Bank	Mr Guy-Charles Marhic, secretary	
Deutsche Bundesbank	Mr Peter Griep	
Banco de España	Mr Jesús López	
Banque de France	Ms Vincent Legroux	Teleconference
Banque Nationale de Belgique	Mr Francois Biquet	Teleconference
Bank of Greece	Mr Panagiotis Pliatsikas	
Central Bank of Cyprus	Mr Costas Papadopoulos	Teleconference
Central Bank and Financial Services Authority of Ireland	Mr Robert O'Hara	Teleconference
Banca d'Italia	Mr Antonio Marras	
Banco de Portugal	Ms Ana Marques	Teleconference
Banque centrale de Luxembourg	Mr Francois Zenner	Teleconference
Central Bank of Malta	Mr Saviour Briffa	Teleconference
De Nederlandsche Bank	Mr Bob Coppes	
Oesterreichische Nationalbank	Mr Wolfgang Hengelmüller	Teleconference
Banka Slovenije	Ms Alenka Snoj	Teleconference
Suomen Pankki	Mr Harri Lahdenperä	Teleconference
<b>Guest speakers</b>		
Royal Bank of Scotland	Mr David Simmonds	
BNP Paribas BFI	Mr Stephane Houriez	
Floyd Capital	Mr John Floyd	