



EUROPEAN CENTRAL BANK  
EUROSYSTEM

**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 Frécharde 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, 2<sup>nd</sup> floor**

**from 16:00 to 19:00**

**Participant's organisation**

**Name of Participant**

Bank of Tokyo Mitsubishi UFJ	Mr Totsuka Shunichiro
BHF Bank AG	Mr Jörg Isselmann
BNP Paribas BFI	Mr Patrick Mauberque
CECA	Mr Jose Manuel Villaverde
Citigroup	Mr Holger Achnitz
Credit Suisse	Mr Martin Wiedmann
Deutsche Bank AG	Mr Stefan Bender
Dexia BIL	Mr Louis Macalli
ICAP	Mr John Nixon
Morgan Stanley	Mr Richard Oliver
Nordea	Mr Morten Tysnes
Royal Bank of Scotland	Mr Roger Hawes
Royal Bank of Canada	Mr Ed Monaghan
Scotia Capital	Mr Barry Wainstein
State Street	Mr Christopher Freeman
UBS AG	Mr Urs Bernegger
European Central Bank	Mr Francesco Papadia, Chairman
European Central Bank	Mr Ivan Fréchar, Secretary

**Guest Speakers**

BHF Bank	Mr Philipp Nimmermann
CLS	Mr Roger Rutherford
CECA	Mr José Manuel Amor
Citigroup	Mr Jeremy Hale

**National Central Banks**

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