



## Foreign Exchange Contact Group

Frankfurt am Main, Tuesday, 24 March 2026

### SUMMARY OF THE DISCUSSION

#### 1. Review of recent FX developments and outlook

Following the presentation by Peter Vincent (State Street), the group discussed **recent FX market developments against the backdrop of heightened geopolitical tensions, energy-price shocks, and shifting monetary-policy expectations**. Geopolitical risks were viewed as the dominant driver for the FX outlook over the next quarters. Some members expressed the view that markets are largely interpreting the ongoing geopolitical tensions as an inflation shock rather than an immediate growth shock with energy supply disruptions still underpriced. If a growth shock were to materialise, it could alter the FX reaction pattern. Participants noted that real money investors have broadly remained close to benchmark allocations, with bond weights declining and equities still remaining overweight due to their potential role as inflation hedge. While tactical de-risking has already emerged among institutional clients, strategic allocation changes are only expected to materialise if disruptions of the Strait of Hormuz extended over the period of several months according to some members. FX hedging behaviour has intensified, with corporates and asset managers making greater use of options, including longer-dated maturities, adjusting hedge ratios, and expanding multi-currency hedging frameworks. However, some corporates temporarily reduced hedge ratios, though many expect structurally higher hedging needs over the long term.

**The global currency landscape is gradually shifting toward a multipolar system, but the US dollar remains dominant, with no imminent threat of de-dollarisation.** While the US dollar remains dominant, its share as a reserve currency has been slowly declining over decades. Participants stressed this trend should not be mistakenly interpreted as imminent de-dollarisation; instead, the world is gradually moving toward a multipolar currency landscape, not a binary USD-vs-one-alternative model. The Chinese renminbi is gaining relevance, driven by China's policy push and increasing use in cross-border settlement (including oil invoicing in renminbi), though global adoption remains constrained by market depth and infrastructure limitations. The euro, meanwhile, faces structural hurdles - including political fragmentation and insufficient capital-market depth - that limit its ability to serve as a

full US dollar alternative. As a result, reserve diversification is occurring slowly and incrementally, without a credible challenger displacing the US dollar.

## 2. Optimising the trade allocation process

Following a presentation by Sandra Carpentieri (UBS) and Ankur Pruthi (NBIM), the group discussed the recently published GFXD white paper on optimisation of the trade allocation process.

**Post-trade allocation practices in FX markets, while representing only a small portion of overall flows, continue to generate significant operational, liquidity, and regulatory challenges in particular for sell side participants.** The discussion addressed challenges and evolving dynamics of post-trade allocation in FX markets, especially in light of accelerating settlement cycles (e.g., EU T+1 by 2027) and increasing market automation. Persistence of post trade allocation is primarily driven by technological limitations or a lack of incentives. Buy-side and sell-side views converged that while most trades are already pre-allocated, a meaningful residual persists due to heterogeneous workflows, legacy Order and Execution Management systems, and limited incentives for some buy-side firms. Technology exists to support pre-trade allocation, but adoption is uneven, with incentives seen as binding constraint. Some members proposed strengthening FX Global Code principles though proportionality and limited buy-side adherence may limit effectiveness. Overall expectation is that gradual market-driven convergence toward pre-trade allocation will be achieved as operational pressure, settlement risks and best-execution requirements intensify.

## 3. Impact of artificial intelligence (AI) on FX algorithmic trading

Following a presentation by Roel Oomen (Deutsche bank) and Elke Wenzler (MEAG), the group discussed the use of AI in FX algorithmic trading.

**The group noted that while AI and algorithms are increasingly used in FX markets, sustained algorithmic coordination or collusion remains unlikely due to market fragmentation, differing liquidity provider strategies, and the slow adaptability of AI models to changing conditions.** Algorithms operate in a fragmented OTC market where prices are not publicly visible and where liquidity providers rely on different data, models, time horizons and execution styles, limiting the emergence of common behavioural patterns. Participants stressed that these AI models adjust slowly and are frequently disrupted by changing market conditions and clients behaviour, making sustained algorithmic coordination or collusion unlikely. Nonetheless, the group noted that if the industry were to converge around

identical off-the-shelf models, risks of algorithmic collusion could increase. Buy-side members stressed the importance of monitoring algorithms' performance through transaction-cost analysis, in-flight controls and human oversight. Participants also discussed the implications of AI for market resilience, noting that while AI tools can help identify patterns and changes in market regimes, they can also create a risk of false confidence when models appear reliable based on past patterns but fail to capture unprecedented situations. Members stressed the importance of maintaining appropriate guardrails, ensuring transparency, and relying on diverse data sources so that the use of AI supports rather than weakens the functioning of the market.