

**Foreign Exchange Contact Group**  
Frankfurt, Wednesday 3 November 2010

## **SUMMARY OF THE DISCUSSION**

### **1. Review of recent market developments**

The Group reviewed and discussed the latest trends in FX markets, following the presentation made by Michael Metcalfe, Head of Macro Strategy at State Street.

### **2. Triennial Central Bank Survey on FX turnover**

Lutz Karpowitz, Senior Currency Strategist at Commerzbank, made a summary of the preliminary results of the Triennial Central Bank Survey coordinated by the BIS. Turnover in foreign exchange instruments rose some 20% between April 2007 and April 2010 to an average daily size of around USD 4 trillion. While FX swaps still represent the biggest share, spot transactions had the biggest increase by almost 50% to USD 1.5 trillion. Reserves accumulation by Central Banks might be one reason for this increase. High frequency and retail trading were also mentioned by some members of the group as explaining the increase. In terms of currency composition, the share of the US dollar declined marginally but was still very high, with 85% of FX trades involving the US dollar. The euro and the Japanese yen are number two and three most traded currencies, as they are involved in respectively 39% and 19% of all FX trades. EUR/USD is by far the most traded currency pair with a share of 28%, followed by USD/JPY (14%). “BRIC” currencies<sup>1</sup> are involved in only 2.8% of FX trades.

### **3. Update on the Chinese Renminbi**

Stewart Newnham, FX Strategist at Morgan Stanley in Hong Kong, made a presentation on the Chinese Renminbi. The presentation covered the market structure and the valuation of the Chinese currency. Regarding the market structure, there have been various regulatory changes recently. The most significant has been the beginning of an offshore RMB. According to BIS data and Morgan Stanley estimates, the daily volume in CNY FX markets has reached around USD 50 bn in 2010 (+50% relative to 2009). This has been accompanied by a steady increase in fixed-income transactions

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<sup>1</sup> Currencies of Brazil, Russia, India and China

in local currency. According to Mr. Newnham, China has taken the first steps of a long process to make RMB an international reserves currency. Turning to valuation, Mr. Newnham argued, on the basis of Purchasing Power Parity models, that the RMB is not undervalued.

#### **4. Update on the oil market**

Thina Saltvedt, Senior Macro and Oil Analyst at Nordea Markets in Oslo, gave an update on the oil market. The presentation focussed on the drivers of the price of oil. Oil prices are expected to move up in the medium term. Oil demand in non-OECD countries is expected to rise with economic growth. This will more than offset the reduced need for oil in OECD countries. On the supply side, less oil is found and field sizes become smaller. Political unrest, protectionism and national sovereignty over oil reserves limit the access to invest in the world's oil reserves and put adequate investments at risk. Ms. Saltvedt forecasts oil prices to be above USD 100 per barrel on a two year horizon. Four potential driving forces are emerging: possible limitations concerning deepwater drilling, the emergence of a new power block in Asia, the potential oil production in Iraq, and the potential production of shale gas. Ms. Saltvedt analysed the (positive) correlation between oil prices and EUR/USD, as well as between oil prices and NOK.

#### **5. Other Business**

Orazio Mastroeni, secretary of the Operations Managers' Group, made a debriefing of the last OMG meeting, which took place on 18 October.

The 2011 work programme was discussed. A tentative version will be distributed soon for finalisation. The next meeting will take place on 2 February 2011 from 13:00 to 16:00 at the ECB premises.

**List of participants**  
**Foreign Exchange Contact Group Meeting**  
**on 3 November 2010**

<u>Participant's organisation</u>	<u>Name of Participant</u>	
Bank of Tokyo Mitsubishi UFJ	Mr Yasushi Kobayashi	
BNP Paribas BFI	Mr Patrick Mauberque	
Citibank	Mr Bernard Sinniah	
CECA	Mr Jose Manuel Villaverde	
Commerzbank	Mr Christian Drueke	
Credit Suisse	Mr Martin Wiedmann	
Deutsche Bank AG	Mr Ardalan Gharagozlou	
Dexia	Mr Franck Luxembourger	
ICAP	Mr Steve Toland	
Morgan Stanley	Mr Richard Oliver	
Nordea	Mr Morten Tysnes	
Royal Bank of Scotland	Mr Roger Hawes	
Royal Bank of Canada	Mr Tony Botting	
Scotia Capital	Mr Barry Wainstein	
State Street	Mr Christopher Freeman	
European Central Bank	Mr Francesco Papadia, Chairman	
European Central Bank	Mr Holger Neuhaus	
European Central Bank	Mr Ivan Fréchar, Secretary	
European Central Bank	Mr Orazio Mastroeni, ECB	
<b><u>Guest Speakers</u></b>		
Commerzbank	Mr Lutz Karpowitz	
Morgan Stanley	Stewart Newnham	
Nordea	Ms Thina Saltvedt	
State Street	Mr Michael Metcalfe	
<b><u>National Central Banks</u></b>		
Banque Nationale de Belgique	Mr Francois Biquet	TC 3231
Banco de España	Ms Marta Sainz	
Banque de France	Ms Claire de Crevoisier	TC 3332
Bank of Greece	Ms Maria Bekiari	TC 3055
Banca d'Italia	Ms Maria Lucia Marras	
Banco de Portugal	Mr Jorge Alves	
Banque centrale de Luxembourg	Mr Francois Zenner	TC 1942
Central Bank and Financial Services Authority of Ireland	Mr William Molloy	TC 3514
Central Bank of Cyprus	Mr Andreas Mylonas	TC 2241
Central Bank of Malta	Mr Mario Bugeja	TC 2614
De Nederlandsche Bank	Mr Dennis Pels	
Deutsche Bundesbank	Ms Christine Glockmann	TC 4944
Oesterreichische Nationalbank	Mr Wolfgang Hengelmüller	TC 4324
Banka Slovenije	Mr Peter Premrl	TC 2841
Suomen Pankki	Mr Tuomas Välimäki	TC 3814