EUROPEAN CENTRAL BANK

EUROSYSTEM

**Foreign Exchange Contact Group**
Frankfurt, Wednesday 5 October 2011

# SUMMARY OF THE DISCUSSION

## 1. Capital flows in Central and Eastern Europe

Gillian Edgeworth, Economist for Central and Eastern Europe at Unicredit, made a presentation on capital flows in CEE countries. Since the 2008 crisis there has been a shift in the composition of capital flows from long term to short term. Most portfolio flows have gone into domestic fixed income markets. As a result, the share of foreign holdings as % of domestic government debt has increased.
The majority of IMF funds have now been disbursed, with repayments for some countries to begin by the end of the year. Foreign banks have reduced exposure to some countries much more than to others
Russia is the only country that has not seen a significant recovery in global capital flows while domestic capital outflows have accelerated. Most current account deficits have adjusted and CEE has been so far holding relatively well in terms of economic growth. However, September saw the largest outflow on record from emerging market funds, providing clear evidence that EM is no longer a safe haven but is impacted by weakening global risk appetite.

## 2. Capital controls and FX interventions in Latin America

Luis Martins, Head of Foreign Exchange in Latin America at BBVA, made a presentation on capital controls and FX interventions in Latin America. Capital inflows into Latam have been accelerating in recent years and Brazil’s contribution to this process is overwhelming. Nonetheless relative to the economy size they do not seem bigger than in previous episodes but the weight of Foreign Direct Investment (FDI) seems to be decreasing. The bulk of the growth of private capital flows after 2008 is coming from non-equity investment components.
Capital controls have been used as a tool of last resort in a number of Latam countries in order to aim at macroeconomic stability, financial stability and policy autonomy. FX interventions seem to have been limited in terms of containing the currencies’ appreciation. A recap of some past countries’ experiences was made.

## 3. Retail FX trading

Enrico Camerinelli, Senior Analyst at Aite Group in Milan, provided the main findings of a study on global retail FX trading. Starting with the market structure (participants, setup), he gave a few key statistics. The global retail FX spot trading volume has increased rapidly in recent years and reached

USD 313 bn daily in 2010 (around 20% of spot transactions). The Japanese market is the biggest in the world but non-Japanese entrants drive most of the growth since 2009. Europe accounts for 35% of the retail FX web traffic. In the US, the regulation has contributed to a slight reduction in activity.

As regards the demographic profile, retail FX attracts more females and less affluent traders than stock trading. Retail FX traders see FX spot as an attractive market for periods of economic uncertainty and have high return expectations. The preferred currency pair is EURUSD.

FX social investing is one of the major industry trends. It consists for a group of passive FX investors following trade expert/trading systems. There is an increased regulatory awareness of retail FX in most jurisdictions.

## 4. Other Business

- The next global FX committees’ meeting will take place in Frankfurt in the first half of 2012. The date will be fixed and communicated soon to members.
- The 2012 work programme was discussed. A tentative version will be distributed for finalisation.
- The next FXCG meeting will take place on 19 January 2012 from 13:00 to 16:00 at the ECB premises

# List of participants

## Foreign Exchange Contact Group Meeting

**05 October 2011** **Room CI, 36th floor, 16:00-19:00**

Meeting no.: 29962

| Participant's organisation | Name of participant |
|---|---|
| Bank of Nova Scotia | Mr Steve Hasler |
| Bank of Tokyo-Mitsubishi | Mr Yasushi Kobayashi |
| BBVA | Mr Javier Fernández Fernández |
| BHF-BANK | Mr Matthias Klein |
| CECA | Mr Enrique Velasco |
| Citi | Mr Bernard Sinniah |
| Commzerbank | Mr Christian Drueke |
| Credit Suisse | Mr Martin Wiedmann |
| Deutsche Bank | Mr Steffen Orben |
| Dexia | Mr Franck Luxembourger |
| ICAP | Mr Jeffrey Ward |
| Morgan Stanley | Mr Richard Oliver |
| Nordea | Mr Morten Tysnes |
| Norges Bank Investment Management | Mr Øyvind Schanke |
| Royal Bank of Schotland | Mr Roger Hawes |
| Royal Bank of Canada | Mr Tony Robert Botting |
| State Street | Mr Chris Freeman |
| Thomson Reuters | Mr Robin Poynder |
| Unicredit | Mr Beat Nussbaumer |

| NCB | Name of participant |
|---|---|
| Banca d'Italia | Ms Lucia Marras |
| De Nederlandsche Bank | Mr. Jeroen Mol |
| National Bank of Slovakia | Mr. Roman Kostelny |
| Suomen Pankki | Ms Jenni Hellström |

| Guest speakers | Name of participant |
|---|---|
| Aite Group | Mr Enrico Camerinelli |
| BBVA | Mr Luis Martin |
| Unicredit Bank AG | Ms Gillian Edgeworth |

**European Central Bank**

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|---|---|
| Mr Francesco Papadia | Chairman |
| Mr Paul Mercier | |
| Mr Ivan Fréchard | Secretary |
| Ms Roswitha Hutter | |

| **Via teleconference** | **Name of participant** | **Extension** |
|---|---|---|
| Banque de France | Mr Jérémy Charbonneau | 4880 |
| Central Bank of Malta | Mr Mario Bugeja | 2614 |
| Banka Slovenije | Ms Tina Ritonja | 2841 |
| Bank of Greece | Ms Maria Bekiari | 3055 |
| Central Bank of Cyprus | Ms Charis Zannetou | 2232 |
| Eesti Pank | Ms Krissa Triin | 2113 |
| Central Bank of Ireland | Mr Patrick Haran | 3514 |
| Oesterreichische Nationalbank | Mr Wolfgang Hengelmueller | 4324 |