

Minutes

Foreign Exchange Joint Standing Committee

10 September 2020

Location: Teleconference

Committee **Alan Barnes** – *Financial Conduct Authority*

Attendees: **Andrew Hauser (Chair)** – *Bank of England*

Dan Parker (Chair, Legal Sub-committee) – *Goldman Sachs*

David Clark – *European Venues and Intermediaries Association*

Frances Hinden – *Shell*

Galina Dimitrova – *The Investment Association*

Giles Page – *Citigroup*

James Kemp – *FICC Markets Standards Board*

John Blythe (Chair, Operations Sub-committee) – *Goldman Sachs*

Kevin Kimmel – *Citadel Securities*

Lisa Dukes – *Drax*

Marc Bayle de Jesse – *CLS*

Neehal Shah – *BNP Paribas*

Neill Penney – *Refinitiv*

Richard Bibbey – *HSBC*

Robbie Boukhoufane – *Schroders*

Rohan Churm – *Bank of England*

Russell Lascala – *Deutsche Bank*

Sarah Boyce – *Association of Corporate Treasurers*

Sian Hurrell – *RBC*

Simon Manwaring – *Natwest Markets*

Sophie Rutherford – *State Street*

Stephen Jefferies – *JP Morgan*

Wang Yan – *Bank of China*

Zar Amrolia – *XTX Markets*

Guest **Charlotte Buckingham** – *Bank of England*

Attendees: **Elsa Lignos** – *RBC*

Manesh Powar – *Bank of England*

Rikki Jones – *Bank of England*

FXJSC **David Edmunds** – *Bank of England*

Secretariat: **Grigoria Christodoulou** – *Bank of England*

James O'Connor – *Bank of England*

Jonathan Grant (Legal Secretariat) – *Bank of England*

Lauren Hustwitt – *Bank of England*

Apologies: **Richard Pursell** – *Insight Investment*

Minute no.

1. Welcome and apologies

Andrew Hauser (Chair, Bank of England) welcomed new members Lisa Dukes (Drax), Neehal Shah (BNP Paribas), Sophie Rutherford (State Street), and new Chair of the Operations sub-committee John Blythe (Goldman Sachs). The Chair also welcomed guest presenters Elsa Lignos (RBC), Rikki Jones, Charlotte Buckingham and Manesh Powar (Bank of England).

The Chair noted that Dan Parker (Goldman Sachs) would be stepping down from the role of Chair of the Legal Sub-committee, and hence also from the Joint Standing Committee. The Chair thanked Mr Parker for his significant contributions to both committees.

2. Minutes of the 9 June meeting

The minutes of the 9 June 2020 meeting were agreed. There were no matters arising.

3. Market Conditions

Charlotte Buckingham and Manesh Powar (Bank of England) delivered a presentation on the April 2020 FXJSC Turnover Survey results¹. Average daily reported UK FX turnover had fallen by 16% since October 2019 to \$2.4 trillion. Turnover had fallen across all instruments, with FX Swaps and Currency Swaps the hardest hit (falling 20% and 37% respectively since October 2019). Spot FX had fallen by 10% since the October survey. This is in line with recent trends and it saw a 14% fall year on year. Members discussed possible drivers for the moves. To some extent the decline was thought to have unwound the pickup in the previous survey, which some members had found hard to explain. But some was also likely to be temporary (including changes in behaviour due to Covid-19).

USD/EUR remained the most traded currency pair. USD/JPY was reported as the second most traded currency pair with USD/JPY seeing a 6% decline in turnover since the October 2019 survey, but a 12% rise year on year. Members discussed that the increase could be related to flights to safe-haven currencies as a result of Covid-19 and broader market uncertainty. Turnover had fallen in GBP/USD and EUR/GBP currency pairs, by 32% and 31% respectively since October 2019. Members discussed possible reasons for the decrease, and it was noted that, amongst other reasons, October 2019 volumes in GBP pairs may have been elevated due to greater Brexit uncertainty compared to April.

Members noted that the proportion of turnover transacted in the Interdealer Direct category had fallen from 28% to 23% since October 2019, and it was suggested that this had been driven by the FX swaps market. Notwithstanding the decline, Interdealer Direct still remained the most common execution method, though volumes traded via Electronic Trading and Electronic Broking systems has continued to increase. Members considered how the transition to remote working had impacted on the ways in which trades were conducted. At the margins, staff working remotely favoured some of the benefits that electronic trading methods brought over traditional methods. Productivity nevertheless had been broadly maintained despite working from home arrangements

4. Special Discussion: Recent trends in US Dollar and Euro

Elsa Lignos (RBC) and Rikki Jones (Bank of England) delivered a presentation on the movements in USD since mid-2020. Members noted that levels of USD realised volatility were significantly higher than they had been over the past 24 months (excluding the peaks of the spring of 2020). However, on a trade-weighted basis the depreciation of the USD was relatively modest, with the USD trading at close to its levels of early 2020. Members observed that the depreciation of the USD versus EUR was taking place in a context of the US economy outperforming the Eurozone economy, making growth differentials a less appealing explanation for USD weakness. Dollar depreciation typically occurs when the US fails to outperform its peers. Dollar appreciation occurs at times of US outperformance, or at times of risk-off global sentiment, given the dollar's unique role as the global reserve currency and subsequent

¹ The April 2020 FXJSC Turnover Survey results can be found at:

<https://www.bankofengland.co.uk/markets/london-foreign-exchange-joint-standing-committee/results-of-the-semi-annual-fx-turnover-survey-april-2020>

behaviour as a haven currency (as part of the popular dollar ‘smile’ framework). The latter – risk sentiment – was not considered to be an obvious driver of recent variations in EUR/USD. Risk aversion and flight-to-safety played some part in explaining USD strength relative to emerging market currencies in early 2020 and its subsequent decline since, but this did not seem as suited to explain the recent weakness of the USD against the EUR.

5. **Electronic Trading in Emerging Markets post Covid-19**

Robbie Boukhoufane (Schroders) and Neill Penney (Refinitiv) delivered a presentation on electronic trading in emerging markets (EM) post Covid-19. Members discussed the recent functioning of EM currencies in comparison to developed market currencies. It was noted that traded volumes for EM currencies had remained lower than those for major currency pairs, which were reported to have recovered somewhat compared to the early months of 2020.

Members discussed a number of factors driving the differential levels of EM currencies, including fiscal constraints; reliance on foreign direct investment (FDI) and external demand; the relative demand for cyclical and liquid assets; and central bank policy.

The Committee also discussed market behaviour during 2020. At the peak impact of Covid-19, average daily volumes for all G10 and most EM currencies had risen versus pre-Covid-19 levels. In addition, it appeared that relative to G10 currencies, EM currencies had seen a greater widening of spreads. Subsequently, trading conditions in G10 currencies had largely normalised, whereas EM currencies continued to see wider spreads and lower daily volumes.

6. **Global Foreign Exchange Committee (GFXC)**

The FXJSC Secretariat provided an overview of the agenda for the upcoming Global Foreign Exchange Committee (GFXC) video conference to be held on 23 September. Key discussion topics would include: an update from local FX committees on market conditions; update on the working groups focussed on the 3-year review of the FX Global Code; and FX settlement risk. It was noted that Russell Lascala would attend as the private sector representative of the London FXJSC.

FXJSC members participating in the GFXC Code review working groups summarised the key themes and progress made by each group since work had resumed in 2020 Q3.

7. **Update from the FCA**

The FCA reported that the European Commission’s public consultation on the review of the MiFID2/MiFIR regulatory framework had continued to be delayed due to Covid-19. It was also noted that ESMA’s technical advice on the Market Abuse Regulation (MAR) Review would be published around October.

8. **Update from the FICC Markets Standard Board (FMSB)**

The FMSB reported that a Statement of Good Practice (SoGP) on Algorithmic trading had been produced and shared for comment. A new draft of the FMSB Standard on Large Deals had also been produced and would be reviewed. Work continued on the SoGP aimed at promoting greater transparency as to how both bilateral and multilateral electronic trading platforms operate.

The FMSB updated the Committee on its work on two Spotlight Reviews covering (i) remote working risks, responsive to the Covid-19 pandemic², and (ii) measuring execution quality in FICC markets³. The FMSB also confirmed that it planned to undertake a new Spotlight Review looking at the gold market.

9. **Update from Operations Sub-committee**

The Operations Sub-committee had met on 3 September 2020. Agenda items had included: a presentation from CLS on FX settlement risk; a presentation on the April 2020 FXJSC Turnover

² <https://fmsb.com/wp-content/uploads/2020/07/examining-remote-working-risks-in-ficc-markets.pdf>

³ <https://fmsb.com/wp-content/uploads/2020/09/measuring-execution-quality-in-ficc-markets.pdf>

Survey results; a discussion on the recent publication regarding the future of post trade; and an update on plans to refresh the FX Settlement Crisis Management Playbook.

10. **Update from Legal Sub-committee**

The Legal Sub-committee had met on 8 September 2020. Agenda items had included: an update on legal developments in crypto-currencies by 4 Pump Court – Barristers Chambers; and a presentation by CLS on emerging themes in FX settlement risk. Members had also been advised on the changes to the Legal Sub-committee Chair position.

11. **Any other business**

None discussed.

Next FXJSC Meeting: 19 November 2020