



EUROPEAN CENTRAL BANK

EUROSYSTEM

## Foreign Exchange Contact Group

Frankfurt am Main, Tuesday, 16 March 2021, 14:00-16:00

### SUMMARY OF THE DISCUSSION

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

**The Group discussed the market review and outlook, including recent trends in investment flows and investor positioning for various asset classes and currency pairs.** Previous long investor positioning in the euro had decreased significantly to a five-year low since the beginning of 2021, mainly against the US dollar and British pound. Moreover, since 11 March ECB press conference, investor sentiment toward the euro was described as more negative and, judging by the demand for EUR/USD put options, including for longer maturities, investors could be positioning for more significant euro depreciation.

**Currency risk exposure was assessed by some members as hedged for a large share of US dollar-denominated assets.** After the recent US Treasury yield curve steepening, the hedging cost in US dollars was still low, making currency-hedged investments in US Treasuries attractive. Cheap hedges could explain why the US dollar had not appreciated even more, as compared to a situation in which investors would be taking on greater US dollar exposure.

Views were mixed regarding the recent appreciation of the British pound: on one hand, it was arguably related to its cheap valuation over recent years, which started to reverse once the Brexit uncertainty was over; on the other hand, the faster vaccine roll-out in the United Kingdom was mentioned as a key driver, but this was not viewed by some members as a sustainable advantage for the UK economy and was believed to mask a much more negative post-Brexit economic reality in the United Kingdom. The latest UK trade figures were an indication of this, leaving little reason for the British pound to strengthen further.

**Regarding foreign exchange (FX) market conditions, members described the environment as stable and calm** with subdued market volatility and bid-offer spreads narrowing towards pre-coronavirus (COVID-19) levels. However, one member cautioned that the current low volatility conditions should not be taken as a sign of calm markets going forward, as there could be periods of significant FX market volatility due to unfolding uncertainty around the COVID-19 pandemic.

#### 2. FX Global Code and Global Foreign Exchange Committee

Members discussed the areas of focus of the Global Foreign Exchange Committee (GFXC) in the light of the ongoing three-year review of the FX Global Code. The Group received updates on the ongoing work from different GFXC Working Group members and presented their views focusing on [documents](#) prepared for the 29 March GFXC meeting. More information on the status of the review was published in a [press release](#) of the GFXC.