



## Minutes

November 21, 2023

### Nineteenth meeting of the Mexican Foreign Exchange Committee

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Mexico City, Tuesday, November 21, 2023

Location: The meeting was held by videoconference at 4:00 p.m., Mexico City time.

Host: Bank of Mexico.

Attendees:

#### Members

**Gerardo Israel García López** – President, Bank of Mexico.

**José Andrés Jiménez Guerra**, Bank of Mexico.

**Alejandro Faesi Puente**, Grupo Financiero Banorte, S.A.B. de C.V.

**Alfredo Puig Franco**, Vector Casa de Bolsa.

**Allan Muñoz Parra**, Coca-Cola FEMSA, S.A.B. de C.V.

**Eduardo Gómez Macías**, Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, S.A. de C.V.

**Eduardo Riba Aspe**, Enlace Int, S.A. de C.V.

**Gilberto Romero Galindo**, Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve Por Más.

**Juan Carlos Escalera Amigo**, Refinitiv.

**Leonardo Franco Villa Reynolds**, Afore XXI-Banorte, S.A. de C.V.

**Luis Antonio Betancourt Barrios**, Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

**Luis Manuel Murillo Peñaloza**, Valores Mexicanos Casa de Bolsa, S.A. de C.V.

**Manuel Alejandro Meza Piza**, BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

**María del Carmen Bonilla Rodríguez**, Ministry of Finance and Public Credit.

**Mayte Rico Fernández**, HSBC Global Asset Management (México), S.A. de C.V., Sociedad Operadora de Fondos de Inversión.

**Pedro Oscar Arroyo Espinoza**, Monex Grupo Financiero, S.A. de C.V.

**Rafael Buerba Gómez**, Santander Asset Management.

**Stine Moller-Hansen Secher**, Nacional Financiera, S.N.C., Institución de Banca de Desarrollo.



**Tomás Acosta Álvarez**, CitiBanamex Afore, S.A. de C.V., Integrante del Grupo Financiero CitiBanamex.

**Xavier Ormaechea Jáuregui**, Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat.

### **Guests**

**Pilar María Figueredo Díaz**, Bank of Mexico.

**Carlos Miguel Vélez Martínez**, Bank of Mexico.

**Luis Murray Arriaga**, Bank of Mexico.

**Diego Rafael Toledo Polis**, Bank of Mexico.

**Héctor Kevin Colín Farías**, Bank of Mexico.

### **AGENDA**

#### 1. Welcome

The President of the Committee welcomed all attendees of the nineteenth meeting of the Mexican Foreign Exchange Committee (MFXC).

#### 2. Developments in global and local FX markets

Developments in global and local foreign exchange markets were discussed, where factors that have supported the dynamics of the Mexican peso during 2023 were highlighted.

In this regard, Committee members noted the attractive levels in nominal and real rates, the country's healthy fiscal and external position, the constant remittance flows, the positive expectations regarding foreign investment and economic growth related to nearshoring. Also, members highlighted a narrower investment environment within emerging markets given latent geopolitical conflicts or idiosyncratic issues that affect the attractiveness of certain economies within said complex.

On the other hand, factors that caused a correction in the Mexican currency's appreciation in recent months were mentioned by Committee members, mainly highlighting the context of high interest rates in the United States, episodes of risk aversion and stop-loss orders that exacerbated the depreciation movement.

Subsequently, some members commented that the announcement by the Foreign Exchange Commission regarding the gradual unwinding of the foreign exchange



hedging program was a factor that generated a momentary and limited negative reaction in the Mexican currency. Additionally, it was noted that said measure coincided with the beginning of an environment of lower risk appetite in global financial markets.

Notwithstanding the above, the majority of Committee members agreed that market consensus maintains an optimistic outlook for the Mexican currency in the short term given that most of the circumstantial and macroeconomic factors that have supported its performance will remain valid. However, certain risks were also highlighted by Committee members going forward, such as a potential escalation of the current geopolitical conflicts, the electoral processes in the United States and Mexico, the decoupling of the monetary cycles between the Federal Reserve and Bank of Mexico, and a possible slowdown in the economic dynamism of the United States. Likewise, they emphasized that, in the current context, investors' attention will remain focused on economic figures and the rhetoric of the main global monetary authorities.

In other topics, the recent dynamics of forward-looking trading conditions, such as the implied volatility and skewness in USD/MXN options, were discussed. In this regard, members mentioned that both indicators reacted to the upside in recent months due to episodes of greater risk aversion, showing greater stability in recent weeks. Likewise, it was noted that the use of derivative instruments among local participants has become more active and sophisticated in recent years, which has been reflected in a greater depth in these markets.

Finally, the potential implications of accelerated settlement schemes for Mexico's foreign exchange market were analyzed. Firstly, the global and local motivations for migrating to these schemes were pointed out, emphasizing the ongoing processes for the transition in the equity market. Subsequently, potential benefits were highlighted, such as a reduction of settlement risk given shorter exposure time, lower collateral requirements and a positive impact on liquidity. Finally, some of the main challenges to achieve the migration to said scheme within the local foreign exchange market were discussed. Particularly, the obstacles in terms of automation and process adaptation were noted.

### 3. FX Global Code and Global Foreign Exchange Committee (GFXC)

Initially, members of the Committee discussed the main topics of the last GFXC meeting, held on June 1 and 2, 2023. In detail, the Committee endorsed the proposal for Gerardo García (General Director of Central Bank Operations at Bank of Mexico), as the new Chair for two-years effective immediately.



Subsequently, a particular update was given on the Motivation for Adherence Working Group, highlighting recent efforts to promote greater understanding of the benefits of adherence to the FX Global Code, as well as the ongoing initiatives to increase the visibility of said Code.

Also, an update was offered on the Proportionality Working Group, where the new “Proportionality Self-Assessment Tool” was presented. This tool will help market participants with less complex activities in the foreign exchange market to focus their adherence efforts on the Principles of the Code that are most relevant to them. Due to the relevance of such tool, the members of the Committee were encouraged to promote its use.

On the other hand, the potential price adjustments in case of unscheduled holidays were discussed, noting that there is no market standard regarding these adjustments. The Committee agreed that the GFXC Chair would write a letter to the International Swaps and Derivatives Association (ISDA) to understand whether any work had been done or could be done on this topic.

In other topics, the initiative regarding the updates to the Bank for International Settlements’ (BIS) surveys focused on settlement risk was briefly detailed. In addition, the results of a recent survey done by the GFXC to local committees regarding data availability were also commented. Likewise, the content of an additional GFXC survey, focused on the main topics that will be considered for the next FX Global Code review was also described, noting that the results will be discussed at the December GFXC meeting.

Finally, the agenda for the next meeting of the Global Committee was detailed, which will be held via videoconference on November 30 and December 1, 2023.

#### 4. Mexican Foreign Exchange Committee (MFXC)

It was briefly mentioned that the list of institutions adhering to the Global Code of Conduct in Mexico has presented few changes from the last meeting.

#### 5. Any other business

It was emphasized that, in recent years, there has been a growing demand for information related to the execution of foreign exchange operations in a reliable and timely manner, both for price discovery purposes and for adapting to international best practices. Likewise, it was mentioned that access to information requires an



appropriate balance between greater transparency and the monetary costs associated with such initiatives.

Finally, it was proposed that the next meeting of the Committee be held in June 2024, and it was informed that the meeting is planned to be held in person, either at Bank of Mexico's facilities, or those of Committee members.