

FX in Transition



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Interview with Barry Wainstein, Scotiabank

Global Finance (GF): The FX market is changing rapidly and with it, so have the actions of market participants and policy makers. After a volatile year, can you describe the landscape as you see it?

Barry Wainstein (BW): Global dynamics are shifting, putting pressure on currency markets. The recent crises have served to accelerate the growing role of emerging economies and by default increased the importance of FX to policy makers. However, not all countries have had similar responses. China continues to liberalize slowly, while others are doing the reverse (e.g., Switzerland's sudden implementation of a ceiling on the franc against the euro). The Swiss are not alone, many countries have responded to volatile markets by official intervention and capital controls. For example, Brazil and South Korea both intervened in markets early in the year to limit currency appreciation but then changed course in September and attempted to slow currency depreciation. As University of Chicago professor, Raghuram Rajan, has said: "at a certain value a safe haven is no longer safe" – suggesting that market volatility is becoming a constant, with currencies moving in and out of favour.

GF: How is the evolving Chinese renminbi market changing currency markets?

BW: As China gradually liberalizes the renminbi it has material short and long term effects on our markets. The development of the offshore renminbi market in Hong Kong (CNH) – not to mention the burgeoning markets in Singapore and London - is the most obvious change. Renminbi denominated deposits in Hong Kong and bond issuances have grown steadily, increasing the number of conduits through which renminbi funds can flow back to the Mainland. This provides fertile ground for the internationalization of the currency and the eventual opening of China's capital account; two of the fundamentals necessary for the renminbi to become a potential reserve currency (the other will be a liquid, developed domestic bond market). The tectonic FX plates are shifting as we move towards a world where China's currency attains the privilege of reserve status. As an authorized clearing member for renminbi trading in Hong Kong,

the Bank looks forward to being a part of the ongoing process of renminbi internationalization.

GF: How have investor flows impacted currency valuations in LATAM and Asia?

BW: According to the IMF, Emerging Markets (EM) now account for 65% of global economic growth, 42% from Asia and 10% from LATAM. Impressive growth and flourishing capital markets have driven foreign direct investment. The Institute of International Finance (IIF) estimates that between 2009 and 2011, private net inflows into LATAM will be US\$664bn, while Asia is expected to receive a massive US\$1,341bn. Most regional central banks have increased FX reserves, partially in an attempt to slow currency appreciation, but also as protection if inflows cease or suddenly reverse. Looking to the future, allocations to EM are expected to increase, with a recent *Pensions & Investments* survey concluding that institutional portfolio EM allocations are expected to increase from 5.1% to 8.7% by the end of 2016. Once the current period of risk aversion subsides, these flows should further support EMFX, though it will be a bumpy road.

GF: Clearly emerging markets will play a larger role in the new currency world order. What are Scotiabank's FX capabilities in these markets?

BW: Scotiabank is Canada's most international bank, with a presence in over 50 countries. This broad footprint offers unique access to local market intelligence and execution capabilities throughout most of the Caribbean and Central America, Mexico, LATAM and Asia. We provide dedicated currency research covering Emerging Asia and LATAM. From an execution standpoint, we are active in both the deliverable and non-deliverable markets. Finally, our wide reach means we can offer our clients onshore as well as offshore currency solutions in certain restricted markets - a clear benefit to those who are doing business around the world.

Scotiabank, winner of the *Global Finance* Best Foreign Exchange Bank in Canada award for seven years in a row.
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