

Press release

The global OTC derivatives market at end-June 1999

The BIS is releasing today its semiannual statistics on positions in the global over-the-counter (OTC) derivatives market for end-June 1999. These statistics constitute the third set of data released under a new regular reporting framework on OTC market activity. They include the *notional amounts* and *gross market values* outstanding of the *worldwide consolidated* OTC derivatives exposure of major banks and dealers in the G10 countries.¹ They cover the four main categories of market risk: foreign exchange, interest rate, equity and commodity.

After adjustment for double-counting resulting from positions between reporting institutions, the total estimated *notional amount* of outstanding OTC contracts stood at \$81.5 trillion at end-June 1999, a 1% increase over the \$80 trillion reported for end-December 1998.

The most striking development was a sharp reduction in foreign exchange contracts, a segment that had already begun to decline in the second half of 1998. At the same time, interest rate contracts continued to grow, albeit at a slower pace. Equity-linked contracts expanded modestly, while commodity contracts returned to growth following a contraction in the second half of last year. Interest rate instruments remain by far the largest component of the OTC market (66%), followed by foreign exchange products (18%) and those based on equities and commodities (with 2% and 0.5% respectively).

The slowdown in *interest rate contracts* (with growth of 8% compared with 18% in the previous period) was accounted for largely by swaps. In contrast, activity in FRAs and interest rate options accelerated. The expansion in business in the second half of 1998 appears to have been related to the unwinding of leveraged positions through offsetting contracts after the financial turbulence associated with the Russian debt moratorium.² Thus the reduced rate of growth seen in the first half of 1999 can be attributed to this unwinding having run its course. However, it also reflected the introduction of the euro. The expansion of euro zone instruments slowed sharply relative to the previous reporting period (to 6% from 21%) as the introduction of the single currency eliminated interest rate arbitrage activity between the various legacy currency segments. Of note, business in the US dollar returned to rapid growth (to 17% from 4%). The reduced presence of leveraged funds appears to account for a redistribution of activity among counterparties back towards the group of reporting dealers (50%).

The pronounced contraction of activity in *currency instruments* (with the stock of open positions dropping by 17%) was accounted for by outright forwards and forex swaps (-21%) and options (-19%). Again, the introduction of the euro was a determining factor. The stock of contracts involving euro area currencies declined by 35% in the first half of 1999. The reduction in historical and implied volatility in the dollar/yen currency pair, which had experienced unprecedented swings in the second half of 1998, was associated with a decline in contracts involving these two currencies. The main exception to this pattern of decline occurred in the area of cross-currency swaps, which increased

¹ The notional amount, which is generally used as a reference to calculate cash flows under individual contracts, provides a comparison of market size between related cash and derivatives markets. Gross market value is defined as the sum (in absolute terms) of the positive market value of all reporters' contracts and the negative market value of their contracts with non-reporters (as a proxy for the positive market value of non-reporters' positions). It measures the replacement cost of all outstanding contracts had they been settled on 30 June 1999.

² In the OTC market, while positions may be unwound by assignment or termination of the original contract, it is more common for this to be done through new contracts with the opposite positions.

modestly. This contrasting development may have been related to strong primary market activity in global securities markets.

Calmer market conditions were reflected in a 19% drop in estimated *gross market values* in the first half of 1999, to \$2.6 trillion. Taking into consideration the increase in the overall stock of transactions, market values dropped from 4% to 3% of reported notional amounts. Such values exaggerate actual credit exposure since they exclude netting and other risk reducing arrangements. Allowing for netting, the derivatives-related credit exposure of reporting institutions was much smaller at \$1.1 trillion.

This press release is available on the BIS website at www.bis.org.

Table 1
The global over-the-counter (OTC) derivatives markets¹

Amounts outstanding in billions of US dollars

	Notional amounts			Gross market values		
	End June 1998	End Dec. 1998	End June 1999	End June 1998	End Dec. 1998	End June 1999
A. Foreign exchange contracts	18,719	18,011	14,899	799	786	582
Outright forwards and forex swaps	12,149	12,063	9,541	476	491	329
Currency swaps	1,947	2,253	2,350	208	200	192
Options	4,623	3,695	3,009	115	96	61
B. Interest rate contracts²	42,368	50,015	54,072	1,160	1,675	1,357
FRAs	5,147	5,756	7,137	33	15	12
Swaps	29,363	36,262	38,372	1,018	1,509	1,222
Options	7,858	7,997	8,562	108	152	123
C. Equity-linked contracts	1,274	1,488	1,511	190	236	244
Forwards and swaps	154	146	198	20	44	52
Options	1,120	1,342	1,313	170	192	193
D. Commodity contracts³	451	415	441	38	43	44
Gold	193	182	189	10	13	23
Other	258	233	252	28	30	22
Forwards and swaps	153	137	127	..	..	..
Options	106	97	125	..	..	..
E. Other⁴	9,331	10,388	10,536	393	492	400
GRAND TOTAL	72,143	80,317	81,458	2,580	3,231	2,628
GROSS CREDIT EXPOSURE⁵				1,203	1,329	1,119
<i>Memorandum item:</i>						
<i>Exchange-traded contracts⁶</i>	<i>14,256</i>	<i>13,549</i>	<i>17,262</i>	..	..	..

¹ All figures are adjusted for double-counting. Notional amounts outstanding have been adjusted by halving positions vis-à-vis other reporting dealers. Gross market values have been calculated as the sum of the total gross positive market value of contracts and the absolute value of the gross negative market value of contracts with non-reporting counterparties. ² Single-currency contracts only. ³ Adjustments for double-counting estimated. ⁴ For end-June 1998: positions reported by non-regular reporting institutions in the context of the triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity at end-June 1998; for subsequent periods: estimated positions of non-regular reporting institutions. ⁵ Gross market values after taking into account legally enforceable bilateral netting agreements. ⁶ Sources: FOW TRADEdata; Futures Industry Association; various futures and options exchanges.

Table 2

The global OTC foreign exchange derivatives markets^{1,2}

Amounts outstanding in billions of US dollars

	Notional amounts			Gross market values		
	End June 1998	End Dec. 1998	End June 1999	End June 1998	End Dec. 1998	End June 1999
Total contracts	18,719	18,011	14,899	799	786	582
with other reporting dealers	7,406	7,284	5,464	314	336	200
with other financial institutions	7,048	7,440	6,429	299	297	246
with non-financial customers	4,264	3,288	3,007	186	153	136
up to one year ³	16,292	15,791	12,444	..	..	..
between one and five years ³	1,832	1,624	1,772	..	..	..
over five years ³	595	592	683	..	..	..
US dollar	16,167	15,810	13,181	747	698	519
Euro ⁴	8,168	7,658	4,998	193	223	206
Japanese yen	5,579	5,319	4,641	351	370	171
Pound sterling	2,391	2,612	2,281	55	62	63
Swiss franc	1,104	937	823	35	30	33
Canadian dollar	660	594	636	29	34	27
Swedish krona	351	419	435	11	9	14
Other	3,019	2,674	2,805	179	146	130
<i>Memorandum item:</i>						
<i>Exchange-traded contracts⁵</i>	<i>103</i>	<i>57</i>	<i>80</i>	<i>..</i>	<i>..</i>	<i>..</i>

¹ See footnote 1 to Table 1. ² Counting both currency sides of every foreign exchange transaction means that the currency breakdown sums to 200% of the aggregate. ³ Residual maturity. ⁴ Before end-June 1999: legacy currencies of the euro. ⁵ See footnote 6 to Table 1.

Table 3

The global OTC interest rate derivatives markets¹

Amounts outstanding in billions of US dollars

	Notional amounts			Gross market values		
	End June 1998	End Dec. 1998	End June 1999	End June 1998	End Dec. 1998	End June 1999
Total contracts	42,368	50,015	54,072	1,160	1,675	1,357
with other reporting dealers	18,244	24,442	27,059	463	748	634
with other financial institutions	18,694	19,790	21,149	515	683	559
with non-financial customers	5,430	5,783	5,863	182	244	164
up to one year ²	17,422	18,185	20,287	..	..	..
between one and five years ²	16,805	21,405	21,985	..	..	..
over five years ²	8,141	10,420	11,800	..	..	..
US dollar	13,214	13,763	16,073	311	370	337
Euro ³	13,576	16,461	17,483	476	786	584
Japanese yen	7,164	9,763	10,207	194	212	192
Pound sterling	3,288	3,911	4,398	59	130	103
Swiss franc	1,055	1,320	1,404	19	31	27
Canadian dollar	770	747	814	14	18	16
Swedish krona	826	939	1,122	19	25	21
Other	2,475	3,113	2,570	68	102	77
<i>Memorandum item:</i>						
<i>Exchange-traded contracts³</i>	<i>13,107</i>	<i>12,305</i>	<i>13,810</i>	..	..	..

¹ See footnote 1 to Table 1. ² Residual maturity. ³ Before end-June 1999: legacy currencies of the euro. ⁴ See footnote 6 to Table 1.