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Shifting currents in FX and interest rate derivatives: highlights from the 2025 Triennial Survey[1]

The articles in this special edition of the BIS Quarterly Review *leverage new data from the 2025 BIS Triennial Survey to examine how structural shifts and policy changes have shaped trading activity in FX and interest rate derivatives markets. Hedging activity, driven by US dollar depreciation and heightened interest rate volatility, boosted FX trading in April 2025. Structural changes, including the transition to risk-free reference rates and the advance of electronic trading, shaped market structure. The dramatic rise in positions in government bond futures, spurred by hedge funds exploiting the cash-futures basis trade, has bolstered trading of interest rate derivatives on exchanges rather than over-the-counter markets. Despite the market strains of April 2025, the overall market structure demonstrated resilience, supported by dealers' use of internal markets and advanced trading infrastructures. BIS statistics remain a vital tool for monitoring these developments and their implications for financial stability.*

JEL classification: F31, G15, G23.

Foreign exchange (FX) and interest rate (IR) derivatives markets are a linchpin of the global financial system. They offer market participants the ability to efficiently manage exposures to assets worldwide, share risks and pursue speculative strategies. However, derivatives markets also bring vulnerabilities, such as increased opacity in market positioning and the potential for amplified credit and liquidity risks.

This special edition of the *BIS Quarterly Review* explores the evolution of trading activity in FX and IR derivatives markets, drawing on data from the 2025 BIS Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets – the most comprehensive source on the size and structure of OTC markets.[2] Two articles and boxes in this edition provide new insights on how policy changes and longer-term structural forces have reshaped FX and IR derivatives markets over the past few years. They also touch on issues of market development

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2 The BIS coordinates the Triennial Survey, conducted every three years since 1986, in cooperation with central banks worldwide under the auspices of the Markets Committee and the Committee on the Global Financial System. More than 1,100 dealers (mainly banks) located in 52 jurisdictions participated in the 2025 survey. Data were collected in two stages: OTC trading of FX spot, FX derivatives and interest rate derivatives was surveyed in April 2025, and the outstanding notional amounts and gross market values of all OTC derivatives were surveyed at end-June.

Key takeaways

- *Hedging activity took centre stage amid policy uncertainty in April 2025 that unsettled financial markets and precipitated a surge in FX trading as investors adjusted their hedging and portfolio strategies.*
- *Trading of interest rate derivatives on exchanges grew, fuelled by greater volatility in the interest rate environment and the cash-futures basis trade.*
- *Despite the market strains of April 2025, the overall market structure demonstrated resilience, supported by dealers' enhanced use of internal capital markets and internal matching of customer flows.*

and resilience specific to EMEs. A third article is a primer on derivatives markets; it explains underlying concepts and shows how the full range of BIS derivatives statistics helps monitor structural shifts and vulnerabilities in the global financial system. The following pages provide a brief synthesis of the key insights in this special edition.

Global FX markets when hedging takes centre stage

FX turnover – ie the value of transactions – in OTC markets averaged $9.5 trillion per day in April 2025, up 27% from 2022. This rise in trading occurred against a backdrop of heightened volatility triggered by US tariff announcements on 2 April and an unexpected depreciation of the US dollar. The resulting rush to hedge exposures by banks and institutional investors amplified trading in spot, forwards and options.

In this Quarterly, Huang, Krohn and Sushko (2025) analyse these dynamics, focusing on the role of FX hedging and how investors had positioned themselves going into April 2025. FX hedging costs rose substantially during the post-pandemic global monetary tightening cycle. Many investors' hedge ratios drifted down as a result, leaving them underhedged in early April 2025. This positioning helps explain the scale of trading activity during the month. Compared with a counterfactual based on higher-frequency but less comprehensive data, roughly $1.5 trillion of April's FX turnover can be attributed to the extraordinary effects of the tariff announcements.

Turnover patterns across instruments point to re-hedging as a key driver of market activity. Outright forwards, which offer a simple way to lock in exchange rates, are well suited for adjusting hedges on existing exposures.[3] Dealer banks that provide forwards to investors can turn to the spot market for hedging. Consistent with this narrative, outright forwards and spot transactions registered very large gains in trading. While the Triennial lacks information on the direction of trade, data from CLS Group suggest that non-US asset managers were persistent net dollar sellers via FX swaps and outright forwards. Such forward selling arguably reinforced the dollar's depreciation during April.

[3] FX swaps, by contrast, would be the preferred instrument if the transaction needs to be funded by borrowing of US dollars. That said, some institutional investors reportedly also sought to re-hedge their positions by combining FX swaps with spot positions, which can be beneficial given the liquidity of FX swaps. In line with this, spot and FX swap trading by institutional investors thus registered material gains.

Markets in April 2025 were volatile but resilient, with no clear signs of liquidity impairment or market dysfunction.[4] Largely invisible to the broader market, major FX dealer banks continued to match well over 80% of client spot volumes on their own books, minimising the overall market impact of heightened trading. Indeed, the FX trading landscape proved resilient, enabling participants to adapt strategies and access liquidity. The FX market is fragmented across different venues, as outlined by Krohn, Schrimpf and Sushko (2025a). Although its decentralised structure had earlier raised concerns about a potential "liquidity mirage", it appears that this very characteristic facilitated smooth functioning during the market strains in April.

Despite years of structural innovations to trading, settlement and clearing infrastructures, OTC derivatives markets remain opaque, especially in the uncleared FX segment. As highlighted by Avdjiev, McGuire and von Peter (2025), this constrains efforts to monitor the build-up of exposures and vulnerabilities. Financial stability monitoring requires data beyond measures of market size, to reveal the direction of currency flows and the geography of exposures – including the location and sector of counterparties. The BIS is working in cooperation with reporting central banks to close these data gaps.

The cash-futures basis trade and trading of interest rate derivatives on exchanges

Global turnover in IR derivatives surged by 87% between April 2022 and April 2025, reaching $25 trillion per day. Turnover in the OTC segment grew by 59% to reach $7.9 trillion per day. Even more substantial, turnover of exchange-traded derivatives reached $17.4 trillion per day. Ehlers and Todorov (2025) attribute the growth in OTC and exchange-traded derivatives markets to two conjunctural drivers and discuss how structural forces have reshaped IR derivatives markets over the past few years.

The first driver was the sharp turns in monetary policy since 2022. The global tightening cycle, marked by rapid interest rate hikes, spurred trading, particularly in contracts used to hedge movements in short rates. Exchange-traded money market futures, notably those linked to the benchmark interest rates in the United States (SOFR) and the Euro area (Euribor), saw significant growth.

The second driver – the cash-futures basis trade – boosted trading in government bond futures on exchanges. Rising government bond issuance amid quantitative tightening by central banks has expanded the float of government bonds to be absorbed by private market participants. Given dealers' balance sheet constraints, hedge funds have increasingly stepped into the market as marginal buyers of government bonds as part of a "basis" trade where they simultaneously enter into a short futures position[5] with asset managers taking the other side.

Structural forces have also played a role in reshaping OTC IR derivatives markets. The transition from Libor to near risk-free rates (RFRs) since 2021 has fundamentally altered the market landscape, with major jurisdictions adopting RFRs as primary

4 See the box by Krohn, Schrimpf and Sushko (2025b), which provides an analysis of liquidity conditions and dealer intermediation during the April 2025 turbulence.

5 Hedge funds use the repo market to fund the purchase of the cash government bond and to lever up returns, when earning the difference between the yield on government bonds and the implied yield on the futures contract.

benchmarks. This has cemented the dominance of overnight index swaps, which now account for 65% of global OTC IR derivatives turnover. However, the coexistence of RFRs and reformed interbank offered rates (IBORs) in some currency areas has meant continued demand for swaps referencing IBOR benchmarks.[6]

Uneven progress in EME FX and derivatives trading

Emerging market economies (EMEs) have become more integrated into global financial markets. Yet making derivatives markets in these economies deeper and more resilient remains a challenge.

Turnover in EME currencies saw substantial growth between 2022 and 2025, but remained low relative to underlying economic activity. In FX markets, EME currencies' combined share rose to a new high of 29% of global turnover. The Chinese renminbi led the way, boosted by its growing use in trade and investment. In a box, Wooldridge (2025) explores how the internationalisation of EME currencies has slowed, reflecting FX and capital controls that limit deliverability contributing to market fragmentation.

Trading of IR derivatives in EME currencies remains lower, at around 5% of global turnover (Ehlers and Todorov (2025)). The absence of exchange-traded government bond futures and the concentration of central clearing in a few key locations continue to hinder market development and deepening in EMEs. These challenges underscore the need for policy initiatives to foster deeper and more resilient markets.

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[6] This has led to signs of a bifurcation: jurisdictions adopting an RFR-only approach (eg the United States, the United Kingdom, Switzerland) have seen a surge in overnight index swap contracts, while in those that simultaneously reformed existing IBOR benchmarks (eg the euro area, Australia), overnight index swap contracts coexist with swaps linked to IBOR rates.