

BANK FOR INTERNATIONAL SETTLEMENTS
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PRESS RELEASE

**CENTRAL BANK SURVEY OF FOREIGN EXCHANGE AND DERIVATIVES
MARKET ACTIVITY IN APRIL 1998: PRELIMINARY GLOBAL DATA**

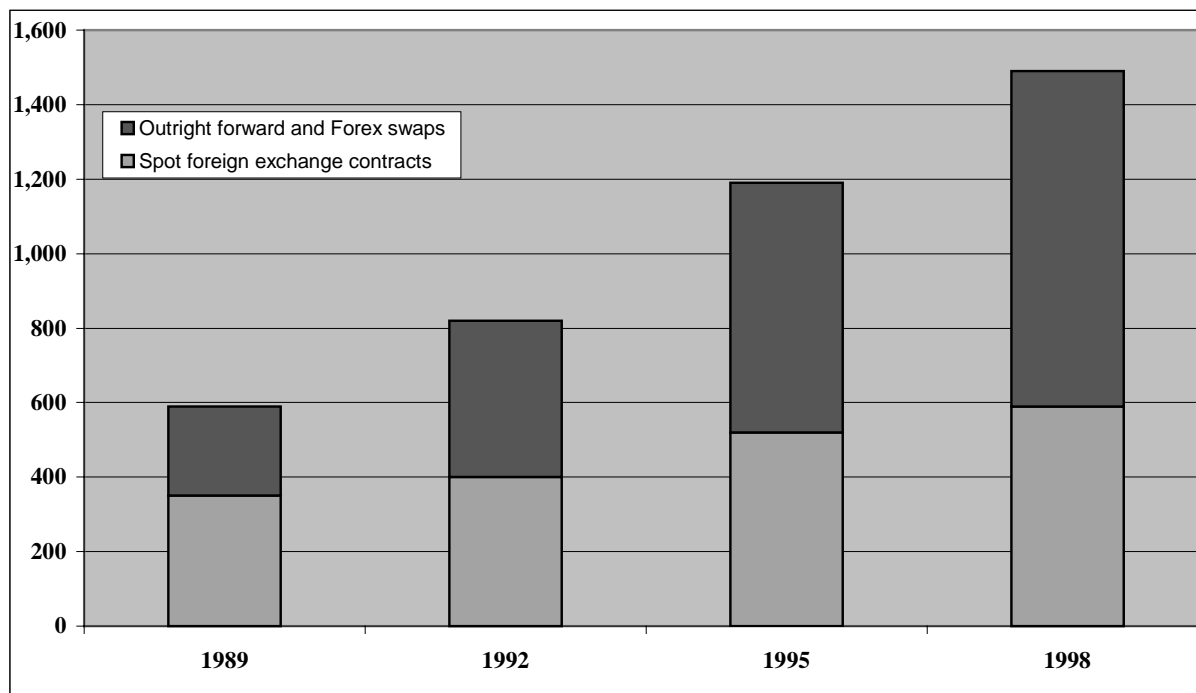
The BIS is releasing today preliminary global turnover data from the latest Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 1998. It follows the publication of national data by participating central banks and monetary authorities on 29th September 1998. The geographical coverage of the new survey was significantly expanded (from 26 countries in 1995 to 43 countries), but, in order to reduce the reporting burden, the coverage of derivatives was limited to over-the-counter (OTC) currency and interest rate instruments. Therefore, it excludes exchange-traded business, information on which is regularly collected by the BIS from the exchanges themselves, as well as smaller OTC market segments such as equity, commodity and credit-related products. In addition, although the reporting of OTC *turnover data* for April 1998 is consistent with earlier surveys, information pertaining to *amounts outstanding* applied to end-June, rather than end-March as hitherto, and is not yet available. This change in reporting date was made to ensure consistency with the new regular reporting of consolidated derivatives market statistics in the G-10 countries which was also introduced at end-June 1998 and preliminary data for which will be released later this year. The BIS will publish the final global results on both foreign exchange and derivatives turnover and amounts outstanding in the spring of 1999.

After allowing for the double-counting resulting from local and cross-border inter-dealer transactions¹ and for estimated gaps in reporting, the average daily turnover in "traditional" global foreign exchange instruments (spot transactions, outright forwards and foreign exchange swaps) can be estimated at US\$ 1,490 billion in April 1998, compared with US\$ 1,190 billion in April 1995. Although the rate of growth in other OTC foreign exchange derivative instruments (currency swaps and options) was considerably higher than in traditional ones, they remained, at US\$ 97 billion, a small fraction of overall trading.

¹ Data adjusted for local double-counting are referred to as "net-gross", while those adjusted for both local and cross-border double-counting are referred to as "net-net".

Summary of global activity in foreign exchange markets*

(average daily turnover in billions of US dollars)



* Adjusted for local and cross-border double-counting ("net-net"). Includes estimates for gaps in reporting.

Meanwhile, the notional value of transactions in interest rate derivatives, i.e. forward rate agreements (FRAs), swaps and options, amounted to US\$ 265 billion, compared with US\$ 151 billion in 1995.

1. Traditional foreign exchange market

In the traditional segment of the foreign exchange market, percentage changes in turnover in the two latest three-year periods (1992-95 and 1995-98) show a considerable deceleration in the rate of expansion in current dollar terms (from 45% to 26%). Between April 1995 and April 1998, however, the dollar rebounded strongly (in particular, it appreciated by more than 50% vis-à-vis the yen, which correspondingly reduced the dollar value of yen transactions). Adjusted for differences in the dollar value of non-dollar transactions, growth accelerated from 29% to 46%. Forward instruments consolidated their leading position, pushing the share of spot turnover down further (to 40%, from 44% in 1995). Within the former group, foreign exchange swaps continued to overshadow outright forwards by a large margin. At the same time, the market continued to show a predominance of inter-dealer business (63%) and cross-border transactions (54%).

In current dollar terms, the breakdown by currency reveals another increase in the role of the dollar on one side of transactions (from 83% in April 1995 to 87%)². However, at constant exchange rates, the share of the dollar actually declined (to 76%). There was, in particular, a strong pick-up in yen business (from 24% to an exchange-rate-adjusted share of 29%) and in a large number of small currencies. This finding is consistent with anecdotal

² Counting both currency sides of every foreign exchange transaction means that the currency breakdown sums to 200% of the aggregate.

evidence of a wide range of investment strategies involving the yen. There was, in contrast, a reduction in currency plays between core continental European currencies (with a sharp fall in Deutsche mark/French franc turnover).

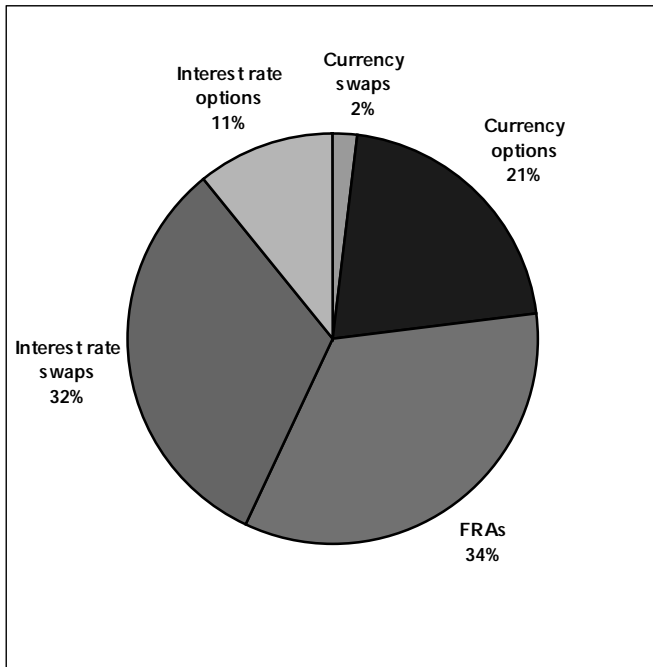
When considering, finally, the location of forex business in current dollar terms, the currency shifts seem to have benefited the United Kingdom (whose share rose from 30% to 32%). At the same time, there was a widening of the gap between the United States (which ranked second at 18% of the total) and Japan (third with a share reduced from 10% to 8%), although such relative movements partly reflect differences in exchange rate valuations between the two reporting periods.

2. OTC derivatives market

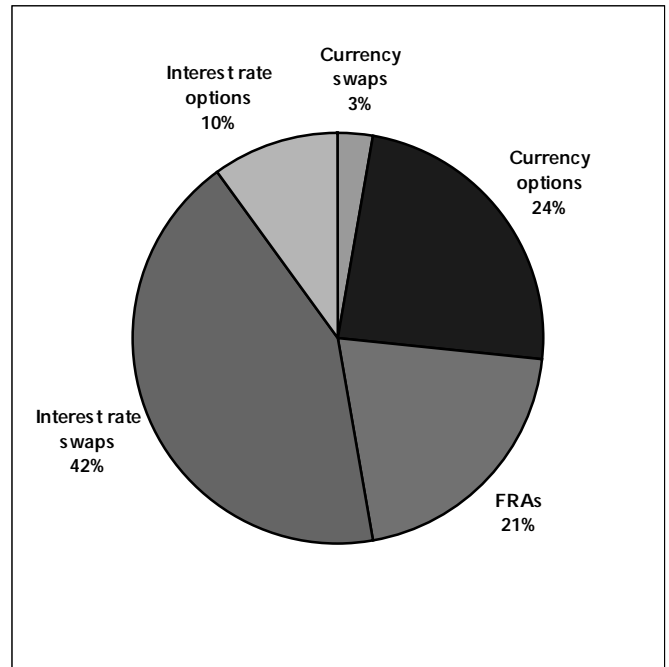
In the OTC derivatives market (which includes other foreign exchange derivatives and all interest rate derivatives contracts), average daily turnover in April 1998 was, at US\$ 362 billion, 85% higher than in April 1995, the first period for which such data were reported. Interest rate products continued to outweigh forex instruments (accounting for 73% of total turnover), attracting a growing proportion of end-users. For its part, OTC forex business was boosted by option transactions. The currency breakdown indicates that contracts between the dollar and the yen, as well as those involving the Deutsche mark against a wide range of currencies, were the most actively traded.

Global turnover in OTC derivative instruments*
(daily averages of notional amounts)

April 1995: US\$ 196 billion



April 1998: US\$ 362 billion



* Excluding traditional foreign exchange instruments (outright forwards and foreign exchange swaps) and adjusted for local and cross-border double-counting ("net-net").

Expansion in the interest rate segment of the market was driven by the growing popularity of single-currency swaps. Of note was the almost sevenfold increase in DM-denominated swaps, which often acted as counterparts to cash and derivatives transactions involving other EU currencies, as well as a proxy for the euro. The fact that the survey was conducted just before the announcement concerning the initial participation in European monetary union, which was followed by a flattening of the main European swap curves and a moderation of arbitrage transactions, may have also played a role. As a result, the German currency overtook the dollar as the most important currency of denomination in swaps (with shares of 30% and 23% respectively). Meanwhile, strategies based on yen interest rates slackened, in a context of historically low levels of interest rates and reduced market volatility.

Finally, the breakdown by reporting centre shows that the share of OTC derivatives business conducted in the United Kingdom rose from 27% in 1995 to 36%, with the growing buoyancy of European currency transactions more than compensating for the more subdued pace of activity in the yen. While the United States maintains its rank as the next most important location (at 19%), France overtook Japan as number three, with Germany replacing Singapore in fifth position. The fall in the market share of Singapore (from 7% to 2%) should probably be seen in relation to the drying-up of liquidity in instruments based on the yen and a number of other Asian currencies.

Table 1

The global foreign exchange and over-the-counter derivatives markets¹

(average daily turnover in billions of US dollars; notional amounts for derivatives)

Category	April 1989	April 1992	April 1995	April 1998
A. Traditional foreign exchange instruments	590	820	1,190	1,490
Spot transactions ²	350	400	520	590
Outright forwards and forex swaps ²	240	420	670	900
B. Other foreign exchange derivative instruments .....	..	..	45	97
Currency swaps .....	..	..	4	10
Options .....	..	..	41	87
Other .....	..	..	1	0
C. Interest rate derivative instruments .....	..	..	151	265
FRAs .....	..	..	66	74
Swaps .....	..	..	63	155
Options .....	..	..	21	36
Other .....	..	..	2	0
D. Total B + C .....	..	..	196	362
<i>Memorandum items: exchange-traded derivatives³</i>				
<i>Currency instruments</i>	<i>13</i>	<i>14</i>	<i>17</i>	<i>12</i>
<i>Interest rate instruments</i>	<i>374</i>	<i>640</i>	<i>1,205</i>	<i>1,360</i>

¹ Adjusted for local and cross-border double-counting. ² Includes estimates for gaps in reporting. ³ Sources: Futures Industry Association and various futures and options exchanges.

Table 2
Measures of global traditional foreign exchange market activity¹
 (average daily turnover in billions of US dollars)

Category	April 1989	April 1992	April 1995	April 1998
Total reported gross turnover	907	1,293	1,864	2,337
Adjustment for local double-counting ²	-189	-217	-293	-366
Total reported turnover net of local double-counting (“net-gross”)	718	1,076	1,572	1,971
Adjustment for cross-border double-counting ²	-184	-291	-435	-537
Total reported “net-net” turnover	534	785	1,137	1,434
of which: cross-border transactions .....	..	392	611	768
Estimated gaps in reporting ³	56	35	53	56
Estimated global turnover	590	820	1,190	1,490

¹ Data include spot transactions, outright forwards and foreign exchange swaps. Number of reporting countries in 1989: 21; in both 1992 and 1995: 26; and in 1998: 43. ² The adjustments have in principle been made by halving positions vis-à-vis other local reporting dealers and other reporting dealers abroad respectively. ³ Includes estimates for less than full coverage within individual reporting countries and for under-reporting of activity involving non-reporting countries.

Table 3
Currency distribution of global traditional foreign exchange market activity¹
 (percentage shares of average daily turnover)

Currency	April 1989	April 1992	April 1995	April 1998
US dollar	90	82	83	87
Deutsche mark ²	27	40	37	30
Japanese yen.....	27	23	24	21
Pound sterling	15	14	10	11
French franc	2	4	8	5
Swiss franc	10	9	7	7
Canadian dollar	1	3	3	4
Australian dollar.....	2	2	3	3
ECU and other EMS currencies	4	12	15	17
Other currencies	22	11	10	15
All currencies	200	200	200	200

¹ Whenever reported on one side of transactions. The figures relate to reported “net-net” turnover, i.e. they are adjusted for both local and cross-border double-counting, except for 1989 data, which are available only on a “gross-gross” basis. ² Data for April 1989 exclude domestic trading involving the Deutsche mark in Germany.

Table 4

Geographical distribution of global traditional foreign exchange market activity¹

(average daily turnover in billions of US dollars)

Country	April 1989		April 1992		April 1995		April 1998	
	Amount	Percentage share	Amount	Percentage share	Amount	Percentage share	Amount	Percentage share
Argentina.....	..	..	..	..	..	..	2.2	0
Australia.....	28.9	4	29.0	3	39.5	3	46.6	2
Austria.....	..	..	4.4	0	13.3	1	10.5	1
Bahrain.....	3.0	0	3.5	0	3.1	0	2.4	0
Belgium.....	10.4	1	15.7	1	28.1	2	26.5	1
Brazil ².....	..	..	..	..	..	..	0.4	0
Canada.....	15.0	2	21.9	2	29.8	2	36.8	2
Chile.....	..	..	..	..	..	..	1.3	0
China ².....	..	..	..	..	..	..	0.2	0
Czech Republic.....	..	..	..	..	..	..	0.5	0
Denmark.....	12.8	2	26.6	2	30.5	2	27.3	1
Finland ³	3.4	0	6.8	1	5.3	0	4.2	0
France.....	23.2	3	33.3	3	58.0	4	71.9	4
Germany.....	..	..	55.0	5	76.2	5	94.3	5
Greece.....	0.4	0	1.1	0	3.3	0	7.2	0
Hong Kong.....	48.8	7	60.3	6	90.2	6	78.6	4
Hungary.....	..	..	..	..	..	..	1.4	0
India.....	..	..	..	..	..	..	2.4	0
Indonesia.....	..	..	..	..	..	..	1.5	0
Ireland.....	5.2	1	5.9	1	4.9	0	10.1	1
Italy.....	10.3	1	15.5	1	23.2	1	28.2	1
Japan.....	110.8	15	120.2	11	161.3	10	148.6	8
Luxembourg.....	..	..	13.2	1	19.1	1	22.2	1
Malaysia.....	..	..	..	..	..	..	1.1	0
Mexico.....	..	..	..	..	..	..	8.6	0
Netherlands.....	12.9	2	19.6	2	25.5	2	41.0	2
New Zealand.....	..	..	4.2	0	7.1	0	6.9	0
Norway.....	4.3	1	5.2	0	7.6	0	8.8	0
Philippines.....	..	..	..	..	..	..	0.8	0
Poland.....	..	..	..	..	..	..	1.3	0
Portugal.....	0.9	0	1.3	0	2.4	0	4.4	0
Russia.....	..	..	..	..	..	..	6.8	0
Saudi Arabia.....	..	..	..	..	..	..	2.3	0
Singapore.....	55.0	8	73.6	7	105.4	7	139.0	7
South Africa.....	..	..	3.4	0	5.0	0	8.8	0
South Korea.....	..	..	..	..	..	..	3.5	0
Spain.....	4.4	1	12.3	1	18.3	1	19.3	1
Sweden.....	13.0	2	21.3	2	19.9	1	15.4	1
Switzerland.....	56.0	8	65.5	6	86.5	6	81.7	4
Taiwan.....	..	..	..	..	..	..	4.8	0
Thailand.....	..	..	..	..	..	..	3.0	0
United Kingdom.....	184.0	26	290.5	27	463.8	30	637.3	32
United States.....	115.2	16	166.9	16	244.4	16	350.9	18
Total "net-gross" turnover.....	717.9	100	1,076.2	100	1,571.8	100	1,971.0	100

¹ Data are adjusted for local double-counting ("net-gross"). Estimated coverage of the foreign exchange market ranged between 90% and 100% in most countries, and between 66% and 80% in a few countries. ² Data only cover spot transactions. ³ Data for 1992 not adjusted for local double-counting.

Table 5
Global reported turnover in over-the-counter derivatives
by currency and type of instrument

(daily averages of notional amounts in billions of US dollars)

A. Foreign exchange contracts

Category	Currency swaps and options		Memorandum items	
			Outright forwards and forex swaps	
	April 1995	April 1998	April 1995	April 1998
Total reported gross turnover	67	150	1,047	1,421
Adjustment for local double-counting	-7	-20	-155	-215
Total reported "net-gross" turnover	60	130	892	1,207
Adjustment for cross-border double-counting	-16	-34	-249	-344
Total reported "net-net" turnover	44	97	643	862
of which: cross-border	27	56	348	479
US dollar vs. other currencies	34	77	595	803
Deutsche mark	11	18	111	146
Japanese yen	14	36	154	146
Pound sterling	1	4	52	79
Other EMS currencies	4	8	143	217
Other	4	10	135	215
Deutsche mark vs. other currencies ¹	8	17	31	36
Japanese yen	2	5	5	6
Pound sterling	1	5	3	6
Other EMS currencies	4	2	16	12
Other	1	4	7	12
Japanese yen vs. other currencies ²	0	1	6	5
Other currency pairs	2	2	11	17

¹ Excluding the US dollar. ² Excluding the US dollar and the Deutsche mark.

B. Interest rate contracts

Category	All instruments		of which			
			FRAs		Swaps	
	April 1995	April 1998	April 1995	April 1998	April 1995	April 1998
Total reported gross turnover	254	415	114	120	104	242
Adjustment for local double-counting	-45	-71	-21	-24	-20	-40
Total reported "net-gross" turnover	209	344	93	97	84	201
Adjustment for cross-border double-counting	-57	-78	-28	-22	-22	-47
Total reported "net-net" turnover	151	265	66	74	63	155
of which: cross-border	78	132	38	35	30	79
US dollar	41	71	18	23	17	36
Deutsche mark	18	63	9	9	7	47
Japanese yen	35	27	9	3	17	14
Other	58	104	30	39	22	58

Table 6

Geographical distribution of global over-the-counter derivatives market activity*

(average daily turnover of notional amounts in billions of US dollars)

Country	April 1995		April 1998	
	Notional amounts	Percentage share	Notional amounts	Percentage share
Australia.....	3.8	1	4.6	1
Austria.....	2.3	1	4.6	1
Bahrain.....	4.1	2	0.4	0
Belgium.....	6.2	2	5.7	1
Canada	5.3	2	7.5	2
Denmark.....	3.9	1	4.9	1
Finland	1.8	1	2.4	0
France.....	22.3	8	45.8	10
Germany.....	13.8	5	34.4	7
Greece	0.1	0	0.0	0
Hong Kong.....	4.3	2	3.8	1
Indonesia.....	..	..	0.2	0
Ireland	1.5	1	2.4	1
Italy	2.4	1	4.4	1
Japan	32.8	12	42.1	9
Luxembourg.....	2.2	1	2.6	1
Mexico .....	..	..	0.2	0
Netherlands	5.2	2	5.3	1
New Zealand	0.2	0	0.5	0
Norway.....	1.5	1	2.9	1
Portugal.....	0.1	0	1.0	0
Russia.....	..	..	0.1	0
Saudi Arabia.....	..	..	0.3	0
Singapore	18.1	7	11.3	2
South Africa.....	0.4	0	0.8	0
South Korea .....	..	..	0.1	0
Spain	3.6	1	3.5	1
Sweden.....	2.3	1	4.3	1
Switzerland	4.4	2	15.8	3
Taiwan.....	..	..	0.3	0
Thailand .....	..	..	0.1	0
United Kingdom.....	73.8	27	170.8	36
United States	53.2	20	90.9	19
Total "net-gross" turnover .	269.5	100	474.0	100

* Adjusted for local double-counting ("net-gross"). Estimated coverage of the derivatives market in individual countries ranged between 75% and 100%. Excluding outright forwards and foreign exchange swaps.