

## Box 2 Foreign exchange market highlights 2003

### *Exchange rate developments*

The króna strengthened by 1.20% in 2003, reflecting a 1.19% decrease in the exchange rate index. The exchange rate index was registered at 124.8994 at the end of 2002 and 123.4179 on December 31, 2003. In the course of the year the lowest index value was 117.9764 on May 23 and the highest value 128.7019 on August 26.

### *Turnover and trading*

Total turnover in the FX market in 2003 was 1,185 b.kr., an increase of 351 b.kr. from the previous year but 32 b.kr. lower than the record year in 2001. Commissions to market makers were abolished at the beginning of 2003 and market rules were changed, most notably with the deregulation of spreads on market makers' bids. Average daily turnover in the FX market in 2003 was 4,781 m.kr. Considerable fluctuations in monthly turnover were seen (see Table 2). Monthly turnover peaked in September at 146.7 b.kr. and was lowest in January at 69.9 b.kr.

Chart 1

### The exchange rate index 2003

Daily fixing January 3 - December 31, 2003

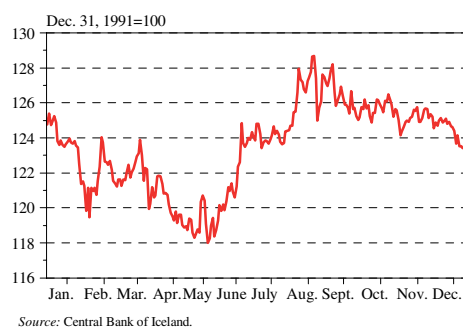


Chart 2

### The exchange rate of USD and euro against the króna 2003

Daily fixing January 3 - December 31, 2003

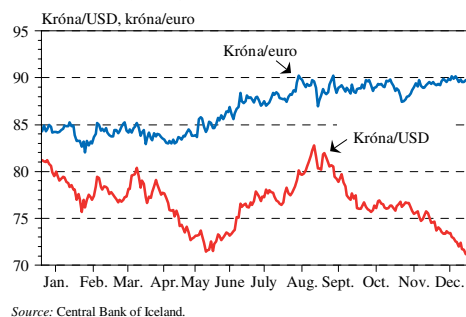


Table 1 Turnover on FX market and Central Bank trading 1994-2003

	Turnover (m.kr.)	Change from previous year (m.kr.)	Central Bank trading	
			M.kr.	%
1994.....	53,355	.	45,547	85.4
1995.....	54,499	1,145	48,619	89.2
1996.....	80,864	26,365	65,006	80.4
1997.....	162,122	81,258	59,308	36.6
1998.....	401,819	239,696	50,939	12.7
1999.....	467,972	66,153	19,277	4.1
2000.....	768,008	300,037	17,430	2.3
2001.....	1,218,045	450,037	29,538	2.4
2002.....	834,444	-383,601	4,528	0.5
2003.....	1,185,566	351,122	43,208	3.6

Table 2 Monthly and average daily turnover 2003

M.kr.	Total turnover	Daily average
January .....	69,889	3,328
February .....	112,349	5,617
March .....	83,297	3,967
April .....	83,470	4,637
May .....	113,430	5,672
June .....	110,072	5,793
July .....	87,657	3,811
August.....	120,064	6,003
September .....	146,659	6,666
October.....	96,585	4,199
November.....	83,986	4,199
December.....	78,109	3,719
Total .....	1,185,566	.

#### Central Bank transactions in the FX market

The Central Bank began boosting its foreign reserves with currency purchases in the FX market in September 2002. Initially it purchased 1.5 m. US dollars twice weekly. In the beginning of February 2003 these purchases were stepped up to 1.5 m. US dollars every morning. Purchases were stepped up again in May, to 2.5 m. US dollars daily. Currency purchases are made between 09.00 and 09.15 hrs., just before the market opens, on a most favourable bid basis. In addition to its regular purchases, the Bank bought 50 m. US dollars from one market participant in January 2003. Thus the Bank has purchased US dollars to the total equivalent of almost 48 b.kr. since September 2002. Of this figure, just over 43 b.kr. was purchased in 2003.

The Central Bank did not transact in the FX market in 2003, nor did it intervene directly in the market with the aim of influencing the exchange rate of the króna.

#### Market makers

The number of FX market makers decreased from four to three when Kaupping and Búnaðarbanki merged at the end of May. Around the same time, the market makers unilaterally raised their minimum indicative bid from 1.5 to 2.5 m. US dollars.

Table 3 Exchange rate fluctuations 2000-2003

Computed by fixing the value of the  
króna against USD and euro

<i>Standard deviation (%)</i>	<i>FX index</i>	<i>USD</i>	<i>Euro</i>
2000.....	0.35	0.57	0.50
2001.....	0.72	0.84	0.77
2002.....	0.46	0.56	0.54
2003.....	0.50	0.69	0.56

*Exchange rate volatility*

Interesting developments can be seen in the fluctuations that took place in the exchange rate index (standard deviation in day-on-day changes) and in the US dollar and euro. Volatility has intensified relative to 2002, especially in the exchange rate of the US dollar.