

## Box 2 Foreign exchange market activity

Since 1989, the Bank for International Settlements has conducted a Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity. Data are collected on turnover in traditional foreign exchange markets – those for spot transactions, outright forwards and foreign exchange swaps – and additionally since 1995, turnover in over-the-counter (OTC) currency and interest rate derivatives. The aim of these surveys is to obtain reasonably comprehensive information on the size and structure of foreign exchange and OTC markets. Increased information also promotes market transparency and reforms. Participants in the survey were 52 central banks and monetary authorities, which is similar to the last survey three years ago but more than double the original number. Each participant reports on foreign exchange activity in its own country. Iceland does not participate in the survey, although the Central Bank has collected foreign exchange trading data which are more detailed than in most other countries.

Preliminary findings were published in September this year. More detailed results will be released at the end of 2004. Further details of the survey are posted on the BIS website, [www.bis.org](http://www.bis.org).

### *Market turnover*

Turnover data provide a measure of market activity and can also indicate market liquidity. Turnover was defined as the absolute gross value of all new deals entered into during the survey month (April 2004), measured in terms of the nominal or notional amount of the contracts and adjusted for double-counting. Table 1 presents a comparison of total forex market turnover with previous years, broken down by instrument. In April 2004, average daily turnover amounted to just under USD 1,880 billion,<sup>1</sup> an increase of USD 500 b. since three years ago. Turnover rose across markets but particularly in the spot and forward markets. However, global trading volumes had fallen between 1998 and 2001.

Factors that arguably boosted turnover include the growing importance of hedge funds and the more active role of asset managers in general. Investors also became increasingly interested in foreign exchange as an asset class alternative to equity and fixed income. There were no substantial changes in the currency composition of turnover between 2001 and 2004. The dollar was on one side of almost half of all transactions, followed by the euro, yen and pound sterling. Unsurprisingly, dollar/euro was by far the most traded currency pair, followed by dollar/yen. Shares of the less-traded currencies have increased with the opening (or recovery) of markets in Asia and Eastern Europe.

The UK was the most active trading centre, capturing 31% of total turnover reported in the survey. Next came the United States (19%), Japan (8%), Singapore (5%), Germany (5%), Hong Kong (4%) and Australia, Switzerland and France (3% each).

The OTC market section consists of “non-traditional” foreign exchange rate derivatives such as cross-currency swaps and options and interest rate derivatives contracts. Turnover in the OTC market jumped to more than double the figure in the previous survey. Average daily turnover in April 2004 was reported as USD 1.2 trillion. The increase in activity largely reflects greater diversity of products rather than a shift from exchanges.

Global foreign exchange market turnover  
Daily averages in April in billions of US dollars<sup>1</sup>

<i>Instrument</i>	<i>1989</i>	<i>1992</i>	<i>1995</i>	<i>1998</i>	<i>2001</i>	<i>2004</i>
Spot transactions.....	317	394	494	568	387	621
Outright forwards.....	27	58	97	128	131	208
Foreign exchange swaps .....	190	324	546	734	656	944
Estimate gaps in reporting .....	56	44	53	60	26	107
Total “traditional” turnover.....	590	820	1,190	1,490	1,200	1,880
Turnover at April 2004 exchange rates .....	650	840	1,120	1,590	1,380	1,880

1. Adjusted for local and cross-border double-counting.

1. At the exchange rate of 67.67 kr. = USD 1 on November 9, this was equivalent to 127 thousand b.kr. By comparison, the record for annual turnover in the Icelandic forex market was in 2001, at 1.2 thousand b.kr.