

Appreciation of the króna

The króna appreciated over the period 2002-2006, as shown in Table 1. Central Bank turnover in the FX market was somewhat down in 2005 from the year before, and was confined to purchases on behalf of the Treasury. From the beginning of the year the Bank made weekly purchases of 2.5 million USD, and in May it bought an additional 100 million USD in five tranches of 20 million USD each. In September the Central Bank stepped up its currency purchases to 2.5 million USD daily until the end of the year.

The exchange rate index reached a trough of 100.5898 on November 4, which is also the lowest index value since 1992. The highest registered value for the year was 116.8131 on May 13.

In December, market makers unilaterally raised their reference amounts for FX trades from 2.5 to 3.0 million USD.

Turnover and volatility

Total turnover in the FX market in 2005 was 2,077 b.kr., an increase of 1,129 b.kr. year-on-year and 859 b.kr. more than in the previous record year of 2001. Turnover soared from August to the end of the year, in tandem with offshore issuance of króna-denominated Eurobonds.

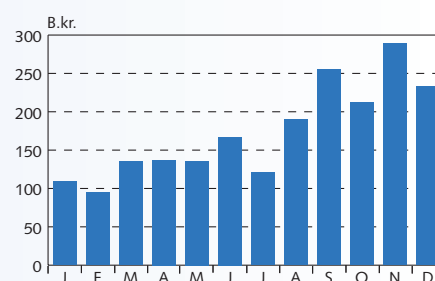
Table 2 shows the standard deviation of day-on-day changes in foreign currencies against the króna for the past four years. Volatility measured in these terms increased substantially from 2004 to 2005. Over the period August 25-December 30, i.e. after the launch of króna-denominated Eurobonds, the króna was more volatile against the euro than over the year as a whole, but less volatile against the US dollar.

Box 1

Foreign exchange market highlights 2005

Chart 1

Monthly turnover on the FX market 2005



Source: Central Bank of Iceland.

Table 1. FX market highlights 2002-2005

	Turnover (m.kr.)	Central Bank turnover (m.kr.)	Average daily turnover (m.kr.)	Exchange rate index			Euro/króna at end of year	USD/króna at end of year
				End of year	Change over year (%)	Appreciation/ depreciation (%)		
2002	834,444	4,528	3,378	124.8994	-11.92	13.53	84.71	80.77
2003	1,185,566	43,208	4,781	123.4179	-1.19	1.20	89.76	71.16
2004	948,249	27,228	3,763	113.0158	-8.43	9.20	83.51	61.19
2005	2,077,467	24,648	8,310	104.9002	-7.18	7.74	74.70	63.13

Table 2. Exchange rate volatility 2002-2005

Standard deviation of day-on-day changes against the króna

	Exchange rate index	Euro	USD
2002	0.46	0.54	0.56
2003	0.50	0.56	0.69
2004	0.35	0.39	0.58
2005	0.57	0.58	0.73
2005 ¹	0.60	0.64	0.71

1. From August 25 to December 30.

Chart 2

Exchange rate index 2005

Daily data January 4 - December 30, 2005



Source: Central Bank of Iceland.