

BANK FOR INTERNATIONAL SETTLEMENTS

## **Currencies, instruments, counterparties: The changing global FX market**

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**The Future of the International Monetary System for Asia**

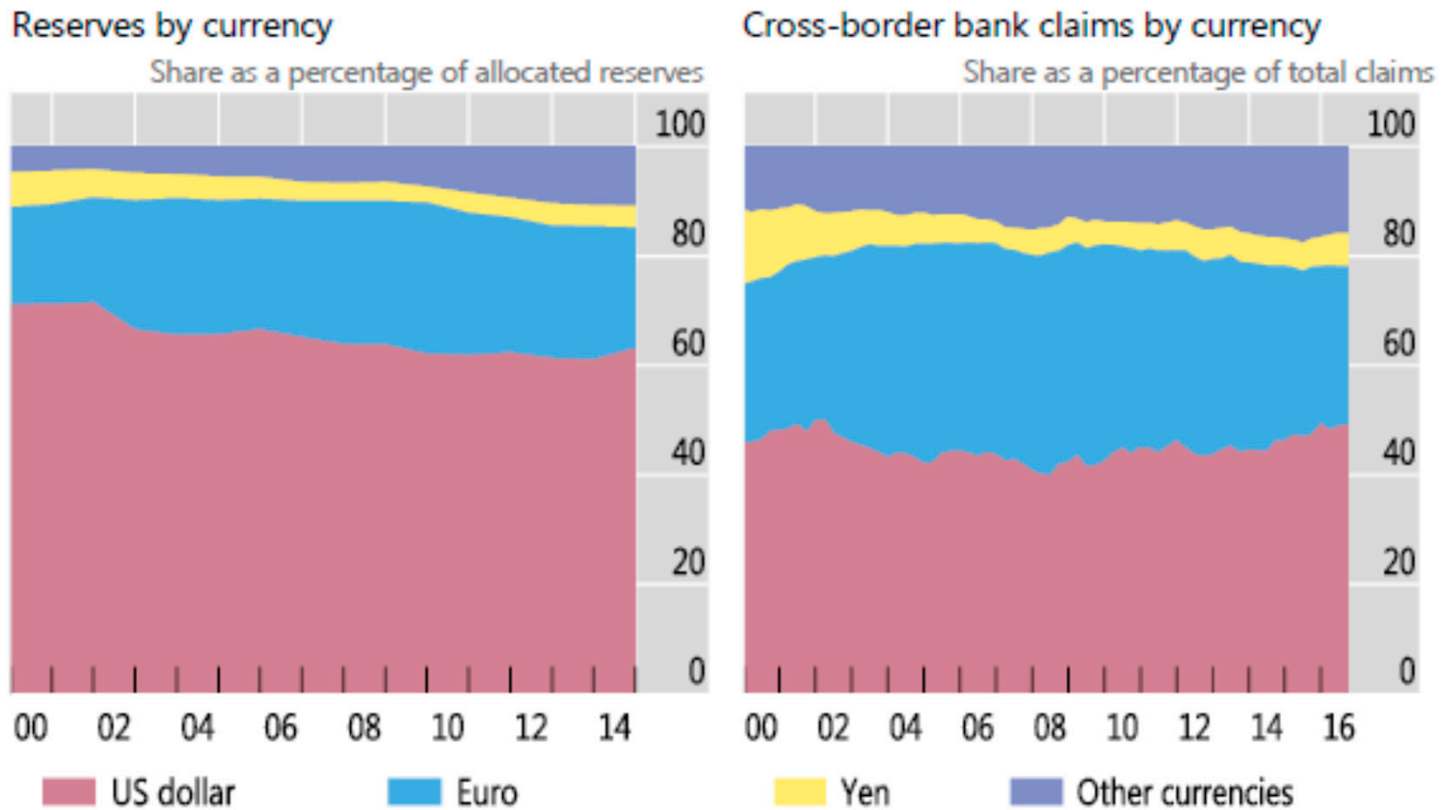
Hitotsubashi University and the IMF Regional Office  
for Asia and the Pacific

Tokyo, 8-9 March 2017



**The views expressed are our own and do not necessarily reflect  
those of the BIS**

## The US dollar is still the preeminent currency

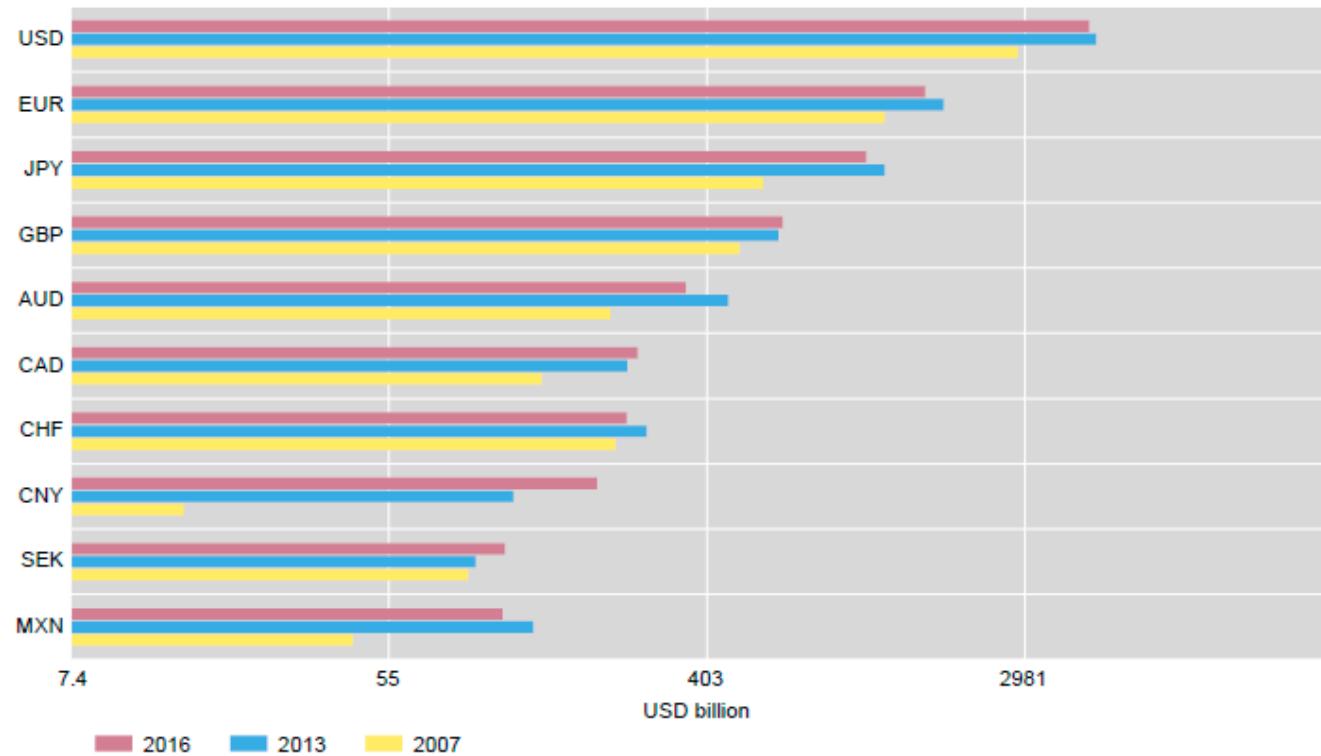


Sources: IMF, COFER; BIS locational banking statistics; BIS calculations.

## The top ten in trading activity

### OTC foreign exchange market turnover by currency

In log USD bn; "net-net" basis

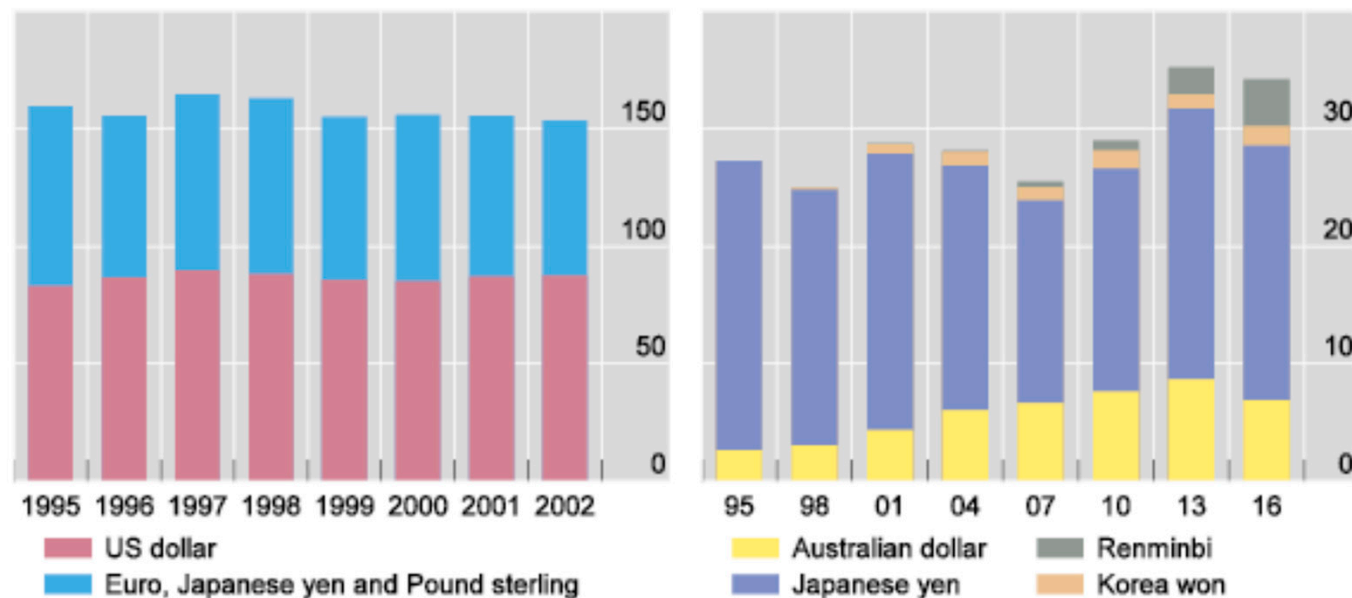


Source: BIS Triennial Central Bank Survey.

## When it comes to market turnover, there's life in a few Asian currencies

### Foreign exchange market turnover by currency

Share as a percentage of total turnover<sup>1</sup>



<sup>1</sup> Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%.

Sources: BIS Triennial Central Bank Survey; BIS calculations.

## Hong Kong and Shanghai have overtaken other trading centers

### Top 20 trading centres of foreign exchange

Daily average turnover in billions of USD; ranking in parenthesis

	2016		2013		2010	
London	2426	(1)	2726	(1)	1854	(1)
New York	1272	(2)	1263	(2)	904	(2)
Singapore	517	(3)	383	(3)	266	(4)
Hong Kong	437	(4)	275	(5)	238	(6)
Tokyo	399	(5)	374	(4)	312	(3)
Paris	181	(6)	190	(7)	152	(8)
Zurich	156	(7)	216	(6)	249	(5)
Sydney	135	(8)	182	(8)	192	(7)
Frankfurt	116	(9)	111	(11)	109	(10)
Copenhagen	101	(10)	117	(9)	120	(9)
Toronto	86	(11)	65	(12)	62	(11)
Amsterdam	85	(12)	112	(10)	18	(20)
Shanghai	73	(13)	44	(16)	20	(19)
Seoul	48	(14)	48	(15)	44	(13)
Moscow	45	(15)	61	(13)	42	(14)
Stockholm	42	(16)	44	(17)	45	(12)
Oslo	40	(17)	21	(20)	22	(18)
Luxembourg City	37	(18)	51	(14)	33	(15)
Mumbai	34	(19)	31	(19)	27	(17)
Madrid	33	(20)	43	(18)	29	(16)

OTC foreign exchange turnover, net-gross basis, daily averages in April. Cities listed in the table represent countries. Turnover of each city may include those of other cities in the same country. For example, turnover of Chicago is included in the turnover of New York.

## How the global market is changing

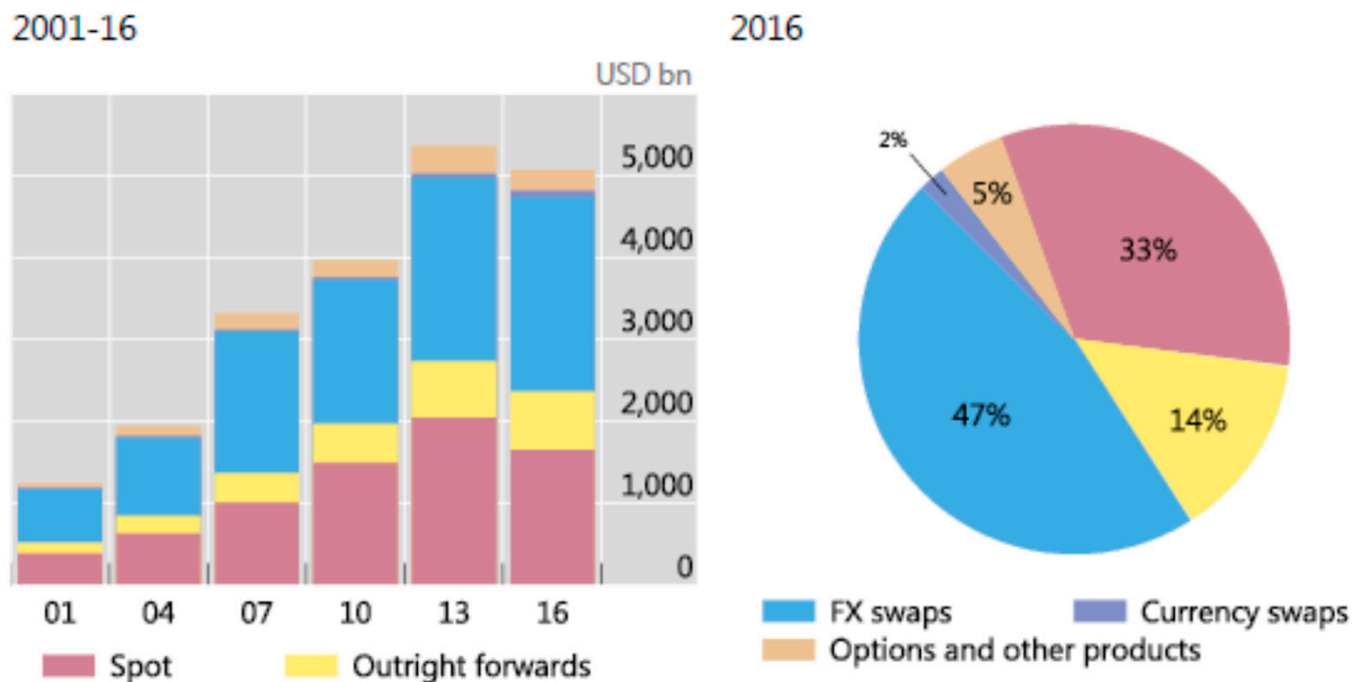
- ❑ The rise of FX swaps
- ❑ The coming of age of the RMB
- ❑ The tyranny of benchmarks



## Spot has lost ground to FX swaps

### Foreign exchange market turnover by instrument

Net-net basis,<sup>1</sup> daily averages in April

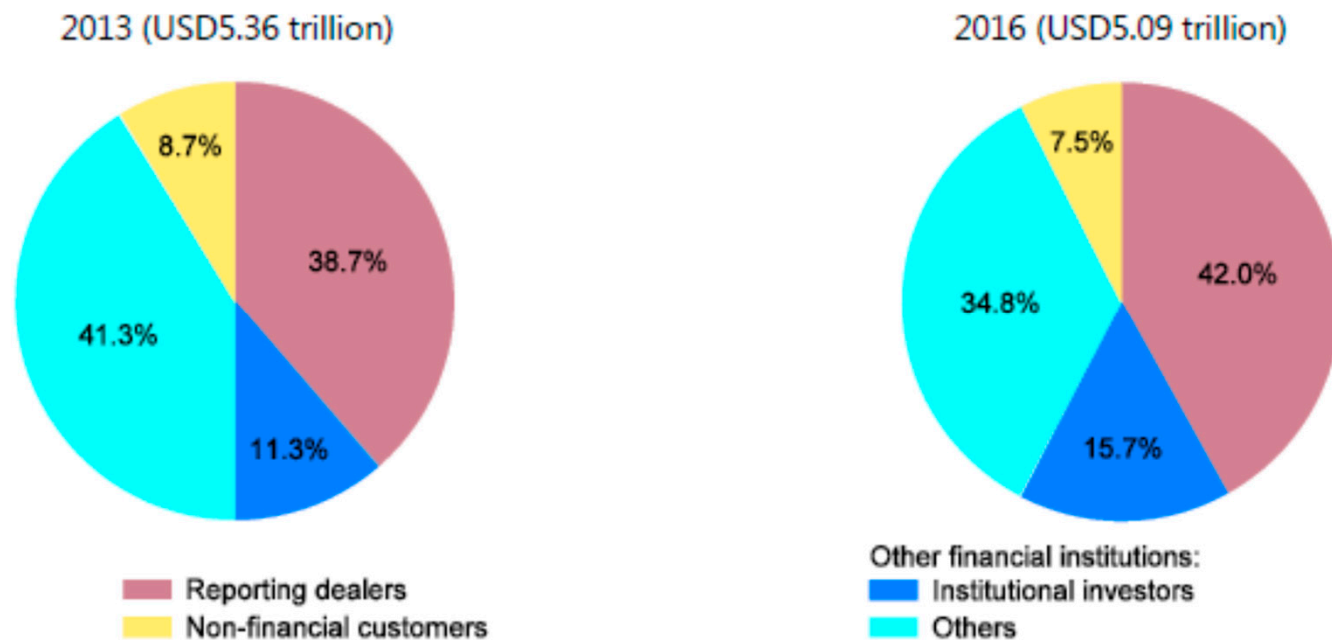


<sup>1</sup> Adjusted for local and cross-border inter-dealer double-counting, ie net-net basis.

Source: BIS Triennial Central Bank Survey.

## Risk-averse counterparties have edged out hedge funds and proprietary traders

### OTC foreign exchange turnover by counterparty

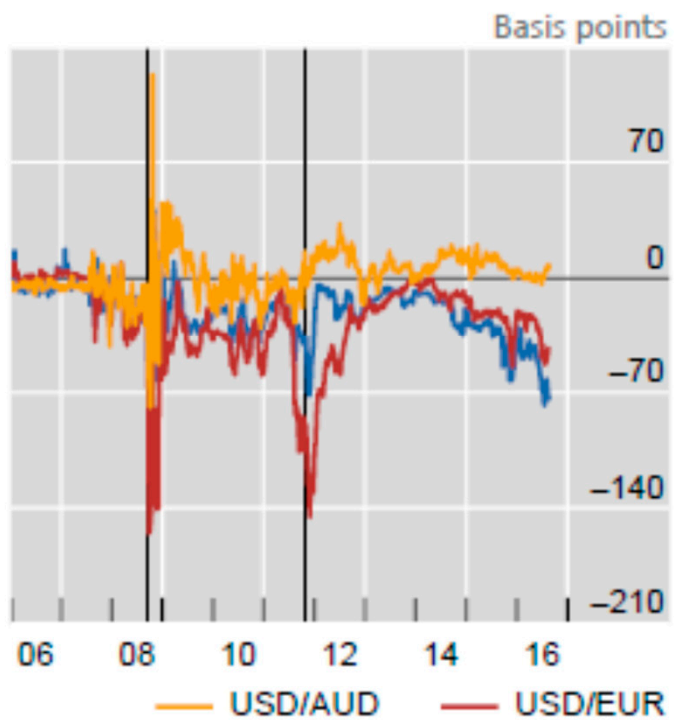


Source: BIS Triennial Central Bank Survey.



## The cross-currency basis did attract some interest

Three-month basis



Three-year basis



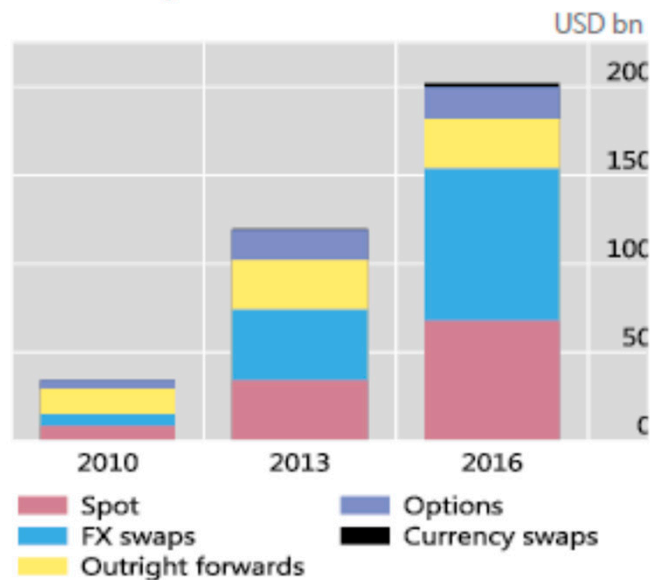
Reference: Borio, McCauley, McGuire, Sushko, "Covered interest parity: Understanding the cross-currency basis" *BIS Quarterly Review* (September 2016)

## The renminbi has come of age

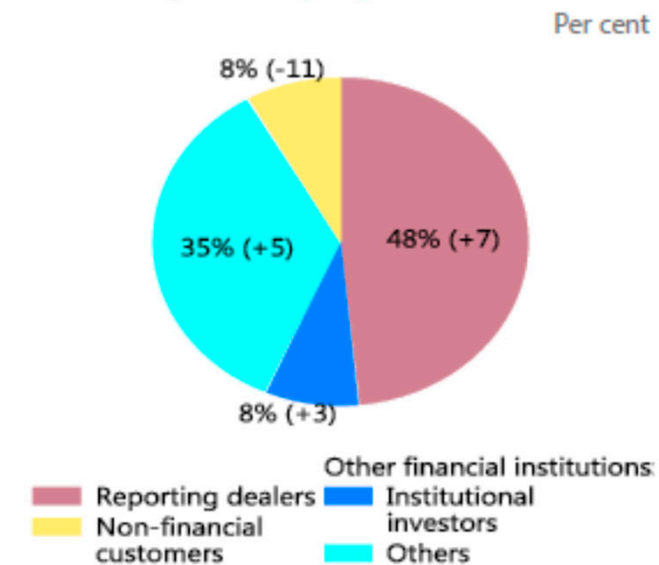
The more it rises, the more it looks like the global market

Daily averages in April; in percentage shares, changes since 2013 in parenthesis

Turnover by instrument<sup>1</sup>



Turnover by counterparty<sup>1</sup>



<sup>1</sup> Adjusted for local and cross-border inter-dealer double-counting, ie net-net basis.

Sources: BIS Triennial Central Bank Survey; authors' calculations.

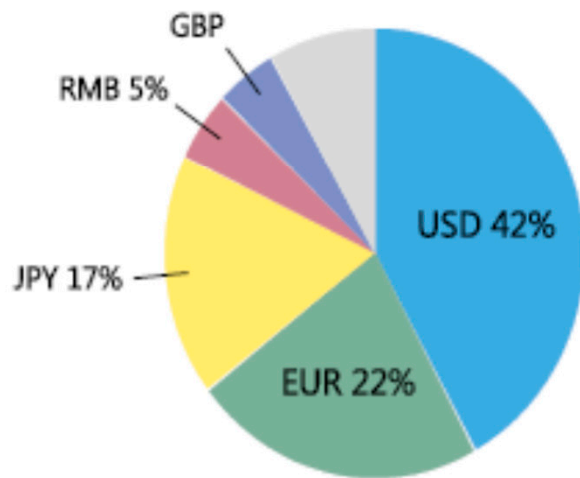
Reference: Moore, Schimpf, Sushko, "Downsized FX markets: Causes and implications" *BIS Quarterly Review* (December 2016)

# The global bond market is ruled by benchmarks

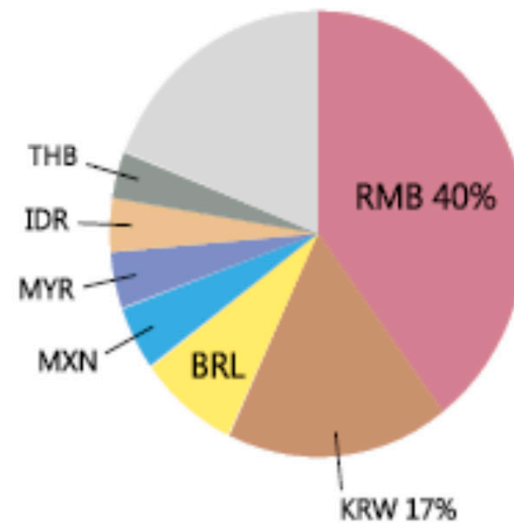
Bloomberg-Barclays parallel bond benchmarks, March 2017

In per cent

Global Aggregate



EM Local Currency



Source: Bloomberg

## How the global currency market has changed

- ❑ Stylized facts: old and new
  - ❑ USD remains dominant
  - ❑ But JPY, AUD, RMB, KRW significant
- ❑ Three stories
  - ❑ Rise of FX swaps in shift to risk-averse counterparties
  - ❑ The RMB has quickly come of age
  - ❑ Benchmark weights are destiny