

MARKETS IN MOTION

developments that matter in financial markets

Global Currency Market

"The tendency in the FX markets is still for hedging but even more for investments. Many hedge funds, pension funds, large corporates, insurance companies use FX now as an asset class in their portfolio while pure trading for own accounts is diminishing."

**Ardalan Gharagozlou, Managing Director,
Global Finance and Foreign Exchange, Deutsche Bank**

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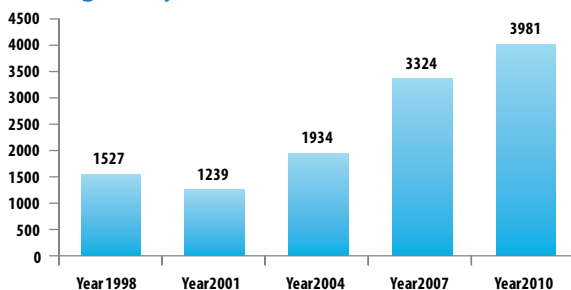
Introduction

Foreign exchange has today evolved into an asset class, like stocks and bonds, due to its deep liquidity, volatility, and low-cost per trade. As the world's largest over-the-counter market, foreign exchange is attractive to investors. Of the global turnover in forex trading, retail trading accounts for around 5 percent. The proliferation of different types of electronic trading platforms in recent years has made the forex market more accessible to investors.

Survey Findings on Global Forex Market

According to the triennial survey report released by Bank for International Settlements on December 1, 2010 on global foreign exchange market activity in 2010, global forex market turnover was 20 percent higher in April 2010 over April 2007, with an average daily turnover of \$4.0 trillion compared with \$3.3 trillion. The increase was driven by 48 percent growth in turnover of spot transactions, which represent 37 percent of forex market turnover. Spot turnover rose to \$1.5 trillion in April 2010 from \$1.0 trillion in April 2007. As regards counterparties, the higher global forex market turnover is associated with the increased trading activity of 'other financial institutions', which include hedge funds, pension funds, mutual funds, insurance companies, and central banks. Turnover in this category grew by 42 percent, rising to \$1.9 trillion in April 2010 from \$1.3 trillion in April 2007.

Average Daily Turnover in \$ bn



Source: BIS

Trading Locations for OTC Markets

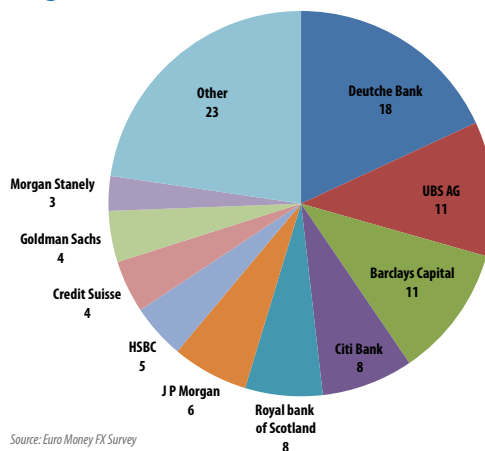
Banks located in the UK accounted for 37 percent of the turnover of all foreign exchange markets in April 2010 against 35 percent in April 2007, followed by the US (18 percent), Japan (6 percent), Singapore (5 percent),

Switzerland (5 percent), Hong Kong (5 percent), and Australia (4 percent). Forex market activity became more global as cross-border transactions represented 65 percent of trading activity in April 2010, while local transactions accounted for 35 percent, the lowest share ever.

Consolidation and Concentration

The largest volume of forex trading involves large banks and global forex market is dominated by major banks of the world. The ten most active global traders are banks and account for 77 percent of trading volume, according to the 2010 Euro Money FX Survey.

Largest Fx Dealers (% of overall volume in May 2010)



Source: Euro Money FX Survey

Recent Trends

The percentage of global forex trading volume executed through electronic systems has gone up to around 60 percent in 2009, from 57 percent a year earlier, according to Greenwich Associates. Electronic trading volumes increased 16 percent in the US, 44 percent in Asia, and remained essentially flat in Europe in 2009. Over 70 percent of financial institutions, 92 percent of banks, and around 50 percent of corporations traded foreign exchange electronically in 2009. The development of internet trading platforms has made the customer segment of the forex business more competitive, leading to the emergence of non-bank service providers.

Note: Global Currency Futures Market will be featured next week.

Contributed by M Ravindran

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