

Press Release

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Riksbank survey of turnover in Swedish currency and derivatives markets

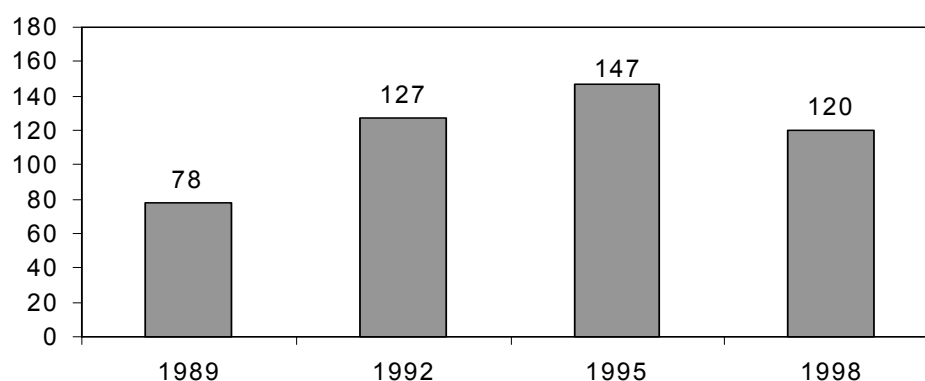
The Riksbank has completed a survey of turnover in the Swedish foreign exchange and derivatives market in April 1998. This survey is initiated by the Bank for International Settlements (BIS) and covers a total of 43 countries¹. The surveyed turnover comprises foreign exchange contracts in the spot and derivatives markets as well as interest rate derivatives without exchange risk; the previous one reported turnover in April 1995. The 1998 survey is restricted to the OTC market and covers the seven largest Swedish agents, whose share of total turnover in the Swedish foreign exchange and derivatives markets is about 90 per cent.

Turnover in the Swedish foreign exchange market has decreased by more than 15 per cent compared to the previous survey in April 1995. Turnover in interest rate derivatives has during the same period almost doubled.

Foreign exchange market turnover

The foreign exchange market is defined as in previous BIS surveys and is represented by spot transactions plus transactions in FX swaps and outright forwards. Diagram 1. shows that the average daily turnover in the Swedish foreign exchange market has decreased by more than 15 per cent compared with the previous survey, from April 1995.

Figure 1. Total foreign exchange turnover in the Swedish market (spot, FX swaps and outright forwards), daily average in April 1998, SEK billion



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The survey shows that virtually the whole of the total fall in exchange market turnover comes from spot transactions, which decreased almost 40 per cent. The foreign exchange instruments with the highest turnover are FX swaps (Table 1).

Table 1. Turnover in the Swedish foreign exchange market by type of instrument, daily average in April 1998

	SEK billion	USD billion	Change in turnover calculated in SEK since 1995
Spot	38.4	4.9	-39.2%
FX Swaps	76.0	9.7	-3.2%
Outright forwards	5.8	0.7	16.4%
Options	5.5	0.7	80.5%
Currency Swaps	0.4	0.0	136.3%

A swap is an agreement to buy a currency today, for example, and sell the same currency at a future date; a swap accordingly consists of two legs. The difference between FX swaps and currency swaps is—simplifying somewhat—that FX swaps have a maturity of less than twelve months, whereas the maturity of currency swaps normally ranges from one to ten years. A spot transaction is an agreement to buy or sell a currency for immediate delivery (in practice within two days). An outright forward involves purchasing or selling a currency for later delivery. An option gives the holder of the contract the right but not the obligation to purchase (sell) a currency at an agreed price at a prearranged future date.

In the spot market the currency pair with the highest turnover is DEM/USD, whereas in 1995 the most traded pair was SEK/DEM. Foreign exchange transactions in SEK/DEM have decreased from about 37 per cent of turnover in 1995 to about 17 per cent in 1998. In the swap and forward markets the main currency pair, as in 1995, is SEK/USD (Table 2).

Table 2. The most frequent currency pairs in the Swedish market, daily average in April 1998

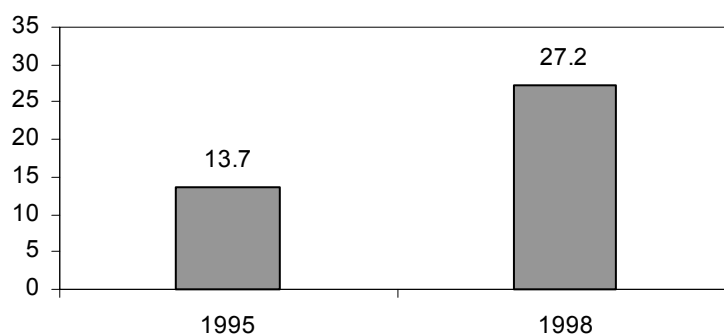
	Spot		FX Swaps	
	SEK billion	Share (per cent)	SEK billion	Share (per cent)
DEM/USD	10.2	26.6%	SEK/USD	30.2 39.7%
SEK/DEM	6.6	17.3%	DEM/USD	9.1 11.9%
SEK/USD	2.1	5.5%	GBP/USD	1.9 2.5%
JPY/USD	1.1	2.9%	SEK/DEM	1.6 2.1%
JPY/DEM	0.7	1.7%	SEK/GBP	1.5 2.0%
CHF/DEM	0.6	1.5%	CHF/USD	1.5 1.9%
	55.5%		60.2%	

The Swedish agents' counterparty in about 60 per cent of the transactions is a foreign bank, which is about 10 percentage points less than the share in 1995. Swedish non-financial customers, on the other hand, have increased their share of transactions from just over 16 per cent to about 24 per cent.

Interest rate derivatives without exchange risk

The turnover in interest rate instruments has almost doubled compared with the 1995 survey and amounts SEK 27.2 billion a day. Interest rate instruments refer here to contracts exclusively concerned with interest rate risk in a currency; in other words, they do not include instruments that carry an element of exchange risk, e.g. currency swaps.

Figure 2. Total turnover in interest rate derivatives in the Swedish market, daily average, SEK billion



The survey shows that, as in 1995, the interest rate instrument with the highest turnover is forward rate agreements (FRAs). Turnover (in SEK) has also risen most for FRAs compared with 1995. Briefly, an FRA is an agreement whereby one party pays and the other receives a fixed rate of interest on a deposit during a future period; the buyer is covered against a future increase in the interest rate and the seller makes a profit if the interest rate falls. The percentage increase in turnover compared with 1995 is greatest for interest rate options.

Table 3. Turnover in interest rate derivatives in the Swedish market by type of instrument, daily average in April 1998

	SEK billion	USD billion	Share (per cent)	Change in turnover calculated in SEK since 1995
FRAs	20.5	2.6	76%	104%
Swaps	2.9	0.4	11%	-4%
Options	3.8	0.5	14%	548%
Total	27.2	3.5	100%	99%

The Swedish market for interest rate derivatives is dominated by contracts in Swedish interest rates; such contracts account for over 70 per cent of the total turnover. Compared with the 1995 survey turnover has risen for contracts in DEM interest rates and fallen for contracts in USD and GBP interest rates (Table 4).

Table 4. Turnover in interest rate derivatives in the Swedish market by currency, daily average in April 1998

Interest rates in	SEK billion	USD billion	Share (per cent)	Change in turnover calculated in SEK since 1995
SEK	19.3	2.5	71%	-
DEM	1.7	0.2	6%	183%
USD	0.4	0.1	2%	-31%
GBP	0.2	0.0	1%	-76%
Other EU	1.6	0.2	6%	-
Other	4.1	0.5	15%	-
Total	27.2	3.5	100%	99%

As in the foreign exchange market, the largest groups of counterparties are foreign banks and Swedish non-financial customers. The dominance of foreign banks is even greater in the market for interest rate derivatives, where they are the counterparty in more than 70 per cent of transactions. The share for the next largest category, Swedish non-financial customers, is about 17 per cent.

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¹ BIS plans to publish a preliminary compilation of all the country surveys on 19 October. Note that, because double-counting occurs when two reporters each publish their mutual transactions, figures for different countries should not be aggregated. Adjustments are made for double-counting in intra-country transactions but not in cross-border transactions.