



28 September 2004

The UK Foreign Exchange and Over-the-Counter Derivatives Markets in April 2004

In April this year, central banks and monetary authorities in 52 countries, including the UK, conducted the latest three-yearly survey of turnover in the markets for foreign exchange (spot, forwards and foreign exchange swaps) and over-the-counter (OTC) currency and interest rate derivatives. The surveys are coordinated on a global basis by the Bank for International Settlements (BIS), with the aim of obtaining comprehensive and internationally consistent information on the size and structure of the corresponding global markets. The Bank of England conducted the UK survey, which covers the business of institutions operating within the UK in these markets.

Foreign exchange market turnover in the UK increased by 49% from April 2001 to April 2004. The volume of OTC currency and interest rate derivatives business more than doubled over the same period. The UK remains the single largest centre of foreign exchange activity with 31.3% of global turnover in April 2004: this share is broadly unchanged since the previous survey.

The main findings of the UK survey are:

- **Average daily turnover in foreign exchange was \$753 billion during April 2004**, 49% higher than the \$504 billion per day recorded for April 2001, or a rise of 30% at constant 2004 exchange rates. This growth has returned the level of turnover to beyond that seen during April 1998, more than offsetting the fall in turnover between April 1998 and April 2001.
- The largest percentage growth between 2001 and 2004 was in outright forward transactions, (94%), followed by spot (47%) and swap transactions (43%). Outright forward trades now account for 14% of total UK foreign exchange activity, compared with 11% in 2001.
- Electronic trading accounts for 55% of total foreign exchange activity, and 67% of inter-dealer spot business (of which the majority is via automated order-matching systems).
- **Average daily turnover in OTC currency and interest rate derivatives was \$643 billion during April 2004**, compared with the \$275 billion recorded for April 2001.
- The growth within OTC currency and interest rate derivatives was most pronounced in the OTC interest rate option market, which saw turnover increase from \$13 billion in April 2001 to \$94 billion

in April 2004, and now accounts for 15% of the overall OTC currency and interest rate derivatives market.

The December 2004 issue of the Bank of England Quarterly Bulletin will provide further analysis and more comprehensive statistics for the UK.

The BIS is publishing preliminary global results today (see the BIS website), with a detailed analysis to follow early in 2005. Central banks of many other countries are also publishing their own survey results; links to their websites can be found on the BIS website.

Notes to Editors

A total of 93 institutions, mainly commercial and investment banks, participated in the UK survey. This was fewer than in previous surveys (for example, there were 253 participants in 2001), as only firms that participate in the inter-dealer market and/or have an active business with large customers were asked to complete the 2004 survey. Others active in the UK market were not directly involved in the survey, but their transactions with participating principals will have been recorded by those institutions.

For the twenty business days in April 2004, participants were asked to provide details of their gross turnover in each market, broken down in terms of specified categories of currency, transaction and counterparty. Gross turnover (measured in nominal values) is defined as the absolute total value of all deals entered into during the month - i.e. there is no netting of purchases against sales. Data were requested in terms of US dollar equivalents, rounded to the nearest million.

The basis of reporting was the location of the sales desk of the trade. This is a change from the 2001 survey where location was defined by the location of the price-setting dealer.

Turnover figures are published on a net basis. In the UK an adjustment is made for the fact that trades between participants in the UK survey will have been reported by both parties to the transaction; other countries have also adjusted their data in this way. The BIS have, in addition, adjusted the global data for cross-border double counting prior to publication today. Aggregating published national results would overstate global turnover due to cross-border double counting.

Key Resources

Summary of 2004 UK Survey Results

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/statistics/bis-survey/fxotcsum04.pdf>