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What's behind the BIS Triennial Foreign Exchange Survey in 2016
：Waning Risk Appetite and Expanding RMB Transactions

Kikuko Takeda
Senior Economist
kikuko_takeda@iima.or.jp
Economic Research Department
Institute for International Monetary Affairs (IIMA)

1. Introduction

For the first time in 15 years, the global trading volumes of the foreign exchange (FX) markets contracted as ascertained by the BIS Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Markets in 2016 (hereinafter BIS Survey)[1]. The trading in FX markets averaged $5.1 trillion per day in April 2016, declined by 5.4% from the previous survey in 2013. As depicted in the notion of global slow trade[2], the economic activities especially in advanced economies have increasingly shown an aspect of "secular stagnation", so the decline in FX trading volumes may not be such a big surprise since the transactions are naturally influenced by the state of global economy and businesses. Further the BIS Survey has a statistical constraint that the data comprises of only one-month (April) average, making it hard to determine to what extent the data can reflect the market overall situation. In addition, there is a possibility that the US dollar appreciation may have affected the result in no small way

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[1] Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Markets, conducted by central banks every three years and coordinated by the BIS, started its survey of FX turnover in 1989. The latest survey (on turnover April 2016) was conducted by central banks and others in 52 economies and regions covering more than 1300 banks and other dealers. Data used in this article are based on the published data on the BIS website, but the global aggregates and national data are likely to be subject to revision in the future.
http://www.bis.org/publ/rpfx16.htm

[2] The growth rate of the world trade declined from around 8% in 2003-2006 to less than 2% in 2012 to 2015. Before the global financial crisis, the growth rate of the world trade exceeded the growth rate of the world's real GDP, but after the crisis, the growth in trade has fallen below the growth rate of real GDP. See also the "Slow Trade: Slowdown of growth rate in world trade volume", Bank of Japan.
https://www.boj.or.jp/research/brp/ron_2016/data/ron161020a.pdf

because the trading data are compiled in the US dollars[3].

Nonetheless, the global FX trading confirmed by the BIS Survey had been showing a notable expansion since the first survey conducted in 1989[4] until 2013, with only exception of 2001 survey which took place just after the introduction of the euro[5]. Also the pace of the expansion was remarkable in the 2010 and 2013, despite the adverse effect of global financial crisis, with an increase of 19.5% to $4.0 trillion in 2010 and 34.8% to $5.4 trillion in 2013. It would be meaningful, therefore, to elaborate the survey results to learn the background of the turnover decline observed in the latest survey.

Table 1 Main Results in 2016 BIS Survey and Supposed Background

Points of 2016 Survey	Major observations	Supposed Backgrounds
1. **Decline in Global FX Trading Volume**	◻ Turnover per day contracted for the first time since 2001 ($5.4 trillion→$5.1 trillion) ◻ First decline in spot transactions since the start of survey($2.0 trillion→$1.7 trillion) ◻ FX swaps increased rapidly ($2.2 trillion→$2.4 trillion)	➢ Receded risk tolerance due to the prolonged low growth of the world economy ➢ Shift in investment behavior from speculator (hedge funds and others) to hedger(pensions and other long-term investors) ➢ Strategy changes given by financial regulations
2. **Expansion of Asian Markets and RMB Trading**	◻ RMB trading share doubled (top-ranking in emerging currency and 8th in global market) ◻ Expansion of Asian markets share(SPR5.7%→7.9%、HKG4.1%→6.7%) ◻ Decline of the London market share(40.8%→36.9%)	➢ Progress of internationalization of Renminbi and diversification of transactions ➢ Asian market expands with a successful incorporation of offshore renminbi
3. **Continued Dependency on US Dollar**	◻ The US dollar's share remains stable at 44% ◻ Share of the euro and yen, ranking second and third, declined ◻ 95% of renminbi trading are against the US dollar	➢ Continued US dollar presence as a sole key currency (no currency to replaceable to the dollar) ➢ Deepened dollar dependency in emerging economies

Compiled by the author based on BIS Triennial Central Bank Survey 2016

[3] Turnover adjusted for the dollar fluctuation showed a small increase (3.4%) in April 2016, but given the high growth of more than 20% recorded in the previous 4 survey-average, the latest result can be described as outstandingly low.

[4] The very first survey on the global turnover of FX trading was conducted in 1986, which became the predecessor to the current survey.

[5] In the survey conducted in 2001, just after the introduction of the euro, the turnover recorded the decline for the first time against the backgrounds such as 1) intraregional transaction decreased with the introduction of the euro, 2) with the growth of electronic broking system, the mutual transactions among the FX dealers decreased, and 3) with the progress of consolidation of financial institutions, part of transactions were internalized.

To sum up the background of the trading volume contraction, it is due to the change of investors' behavior from risk bearing (risk appetite) to hedging (risk aversion) as the markets participants increasingly tightened cautious attitude toward risk bearing. The decline in trading by leveraged institution such as hedge funds has become more evident as to see more vigorous activities by institutional investors on the other hand. As a reflection, a large drop of spot transactions are reported as well as the marked rise of FX swaps in the latest survey. Along with the diminishing risk tolerance, financial regulations taken after the global financial crisis and diverged monetary policies in advanced economies could be an inducement to lead a change in "ecosystems" in the financial market. The other key observation of the BIS Survey, by currency and by location perspectives, is the rapid expansion of RMB trading and the continued overconcentration of the US dollar in FX market. As shown in the Table 1, three major observations from the latest survey straightly reflect the recent global financial situation with many of its issues and concerns. The FX markets, the most liquid markets with global trading volume of more than $5 trillion per day, can be referred to be a mirror that plainly reflects the current financial developments and challenges.

2. Backgrounds of Decreased Turnover: by Counterparty and by Instrument

The change in investors' behavior from risk bearing (risk appetite) to hedging (risk aversion) can be highlighted by examining the survey results of turnover by the counterparty and by the instrument types. It confirms the major background of decline in global FX trading as well as the investors' intensified cautious attitude toward risk taking.

(1) By Counterparty：Shift from Leveraged Players to Institutional Investors

As the Table 2 shows, the counterparty is categorized into the following three groups: ① Reporting dealers that comprised of major banks and securities companies, ② Other financial institutions that cover institutional investors, hedge funds, small and medium-sized financial institutions, and ③ Non-financial institutions that comprise business entities and official sector. Among them, only reporting dealers (①) maintained a small increase of turnover by 2.4% from previous survey while the turnover of other financial institutions (②) which used to have lion's share fell by 8.8%.

Other financial institutions(②) are further categorized into (a) other interbank participants (small and medium-sized financial institutions), (b) institutional investors (insurance companies and pension funds), and (c) hedge funds and proprietary trading firms (PTFs). What lost the share most was the group of so-called speculators of (c) hedge funds and PTFs, whose turnover decreased by outstanding 32.8% or $190 billion to $389 billion. In addition, the turnover of other non-financial customers (business firms and official sector) also fell by 19.1%. These two categories were the main culprits that caused the fall of total turnover for the first time in 15 years.

Table 2 Global FX Market Turnover by Counterparty and Instrument

in US$billion

	Turnover (April, 2013)		Turnover (April, 2016)		2013-2016 Change	2013-2016 Change (%)
Global FX turnover (US$billion, share in %)	5,357	(100%)	5,067	(100%)	-290	-5.4%
1) by counterparty						
①Reporting dealers	2,072	(38.7)	2,121	(41.9)	49	2.4%
②Otherr financial institutions	2,812	(52.5)	2,564	(50.6)	-248	-8.8%
a. Non -reporting banks	1,273	(23.8)	1,113	(22.0)	-160	-12.6%
b. Institutional investors	608	(11.3)	798	(15.6)	190	31.3%
c. Hedge funds and PTFs	579	(10.8)	389	(7.7)	-190	-32.8%
③Non-financial customers	472	(8.8)	382	(7.5)	-90	-19.1%
2) By instrument						
①spot	2,047	(38.2)	1,652	(32.6)	-395	-19.3%
②Foword	679	(12.7)	700	(13.8)	21	3.1%
③FX swaps	2,240	(41.8)	2,378	(46.9)	138	6.2%
④Currency options	337	(6.3)	254	(5.0)	-83	-24.6%
⑤Currency swaps	54	(1.0)	82	(1.6)	28	51.9%

（Source） BIS Triennial Central Bank Survey 2016

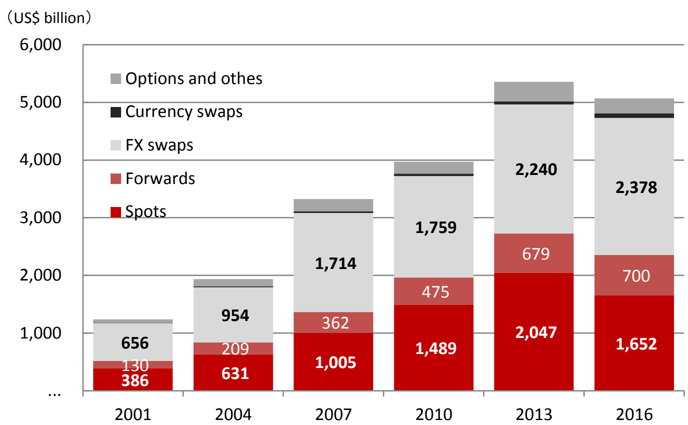
Shift of investors' preference from risk appetite to risk mitigation can be inferred not only by the declined activity level of speculative investors but also the invigorated hedging transactions by long-term investors such as insurance companies and pension funds. Among the main players in the FX markets, institutional investors such as insurance companies and pension funds are generally regarded as an entity with very limited risk tolerance for FX volatilities. Almost all of their FX transactions are purposed for hedging the currency fluctuations and the turnover of institutional investors<Table 2-1) ②b> amounted to $798 billion in the latest survey, increased by 31.3% from the previous survey. Institutional investors largely expanded their turnover by $190 billion, offsetting the trade decline by hedge funds and PTFs.

Entities such as hedge funds and PTFs <Table 2-1) ②c>, which are generally referred to as speculators or the fast money, expected to supply liquidity and activate transactions in FX markets. However, in a reversal, they have significantly reduced their activity level during the survey period while the "FX risk-sensitive" institutional investors largely increased their trading. The results of the latest survey suggest that the risk tolerance of the FX market on the whole fell down in the simultaneous outsets of a pull factor of lowered activities by speculators and of a push factor of expanded risk-hedging activities by institutional investors.

(2) By Instrument : Fall of Spot Transactions and Increased FX Swaps

Looking at the turnover by instrument, spot transactions substantially decreased by $395 billion, or 19.3% from the previous survey, as seen in the Table 2-2) ①. On the other hand, FX swaps transactions increased by $138 billion, or 6.2% from 2013. As a result, the share of FX swaps accounted for 46.9% (41.8% in 2013), half of the total forex transactions, as compared to the share of 32.6% (38.2%) of the spot transactions. FX swaps are mainly used by institutional investors and banks as a means of currency risk hedging for their foreign asset investment or to raise liquidities denominated in foreign currencies. The latest survey shows that institutional investors were the largest contributor to the expansion of FX swaps, increased $125 billion (81.8%) from the previous survey. They accounted for more than 90% of an increase of trading volume of total FX swaps which amounted to $138 billion.

Figure 1 Global Turnover of FX Trading (by instrument)



(Source) BIS Triennial Central Bank Survey 2016

Expansion of swap transactions was highly remarkable in Tokyo FX market, with an increase of $361 billion (21.3%) to $205.7 billion, and far exceeding the global growth rate of 6.2%. As a result, FX swaps that were conducted in Tokyo accounted for 51.6% of the total FX turnover, exceeding the global share (46.9%) of FX swaps. In the background of this notable expansion of FX swaps in the Tokyo, there seems to be a policy divergence in advanced economies, i.e., while the U.S. is proceeding policy normalization, Japan further strengthened ultra-easing policies including negative interest rate that was announced in January 2016, just before the implementation of the 2016 survey.

As is known well, under the prolonged low interest rate environment, Japanese institutional investors had considerably accelerated the foreign bond investment. The latest survey period of April 2016 coincided the timing when the yields on the Japanese bonds fell into a negative zone on the whole spectrum of maturity, including super-long term bonds. Japanese institutional investors, namely insurance companies and pension funds further expanded their portfolio investment in foreign bonds in the search for the yields, and as a result, they are largely executed FX swaps for hedging purposes. Also, the Japanese banks which have actively promoted overseas investment and lending faced an increased demand for foreign currencies[6]. This also raised some keen demands for FX swap transactions in order to control the adequate foreign currency liquidity.

Behind the currency risk mitigation, there seems to have been a high volatility of the Japanese yen exchange rate, in addition to the expansion of US-Japan interest rate differentials. In the early stage of quantitative and qualitative easing policy (QQE) by the Bank of Japan, the policy announcement had been always made with “shocks and awes” and they had become a driver for a rapid depreciation of the Japanese yen generating higher volatilities. On the other hand, the events such as turmoil in Chinese financial market since summer 2015 and British referendum in June 2016 sometimes triggered a “yen buying as a safe haven”. These developments caused exceptionally volatile performance in the yen exchange rate and continued high volatility heightened the investors’ sense of caution against currency risks and/or preference of hedging, thus encouraging the active FX swap transactions in Tokyo FX market.

(3) E-Platform and the Prime-Broker Businesses

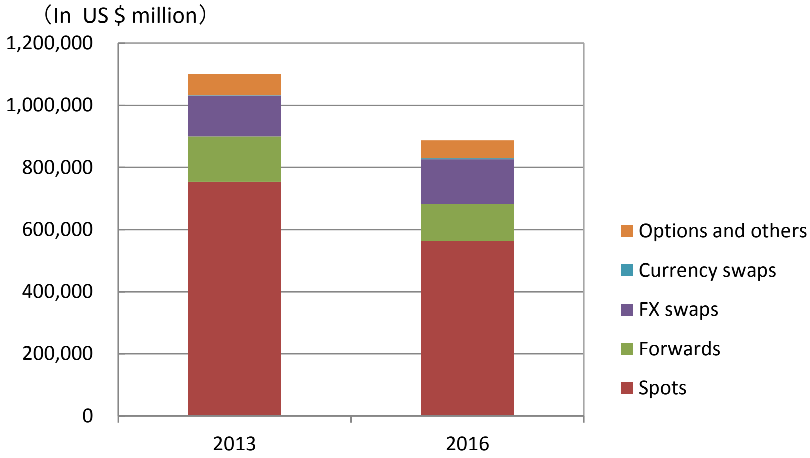
As noted above, divergent monetary policies among major central banks were one of the factors behind the shift of sentiment from risk appetite to risk aversion in the FX markets, but at the same time, the shift may have been affected by the development of financial regulation tightening which may have prompted investment banks’ business strategy changes. According to the BIS Quarterly Review in December 2016, total transactions intermediated by prime brokers decreased by around 20%, with spot transactions falling by almost 30%. (Figure 2)

Until recent years, prime brokers have been regarded as an important business model to support the provision of liquidity into the FX markets. However, it is very likely that in the backdrop of severe business environment after the global financial crisis and a move toward balance sheet adjustment together with the tightened financial controls, major banks have been forced to make a comprehensive review on their income structure and efficiency including those of prime broker business. This development is considered to have restricted the activities of hedge funds through higher collateral fees and stricter entry standards as well as through an

[6] According to the BOJ’s semi-annual “Financial System Report, October 2016”, quantity of Japanese banks’ interest rate risks on foreign asset have been intensifying, with increase of the risks of local banks becoming relatively larger. At the same time, although foreign currency liquidity has been secured to the extent that the shortage can be covered even if it becomes difficult to raise the funds for a certain period of time and efforts have been steadily making gains to improve funding base, the report emphasizes that the weight of funding in the market is still high and procuring cost of foreign currencies tends to rise since broader based entities are trying to procure foreign currencies, it is important for the Japanese banks to continue to improve their funding base and make it more stable.

increased commission/ handling charges[7].

Figure 2　FX Transactions intermediated by prime brokers (by instrument)



(Source) BIS Quarterly Review December 2016

The recent FX markets have been invigorated by automated process and speed-up of trading by the widespread utilization of electronic platform represented by algorithm and high-frequency trading (HFT). Prime brokers had been considered as a preferable business model that enhances e-platform trading by supporting the process from the aspect of various services. However, development of an electronic platform trading will require a vast amount of equipment investment and also on the aspect of its management, several risks have been pointed out including the one that brokers may suffer an enormous damage as they cannot acquire credit status of customers speedily enough to catch up to the high speed process of trading[8]. It may be the simple example of the fact that a new business model also creates new challenges.

Although it is hard to see it directly from the BIS Survey, there is another possibility that the establishment of utilization of such means as "marry" that matches the buying and selling orders from customers on the electronic trading platform has resulted in the decrease of spot transactions. Furthermore, it is likely that the review and improvement of transaction practices and code of conducts in the FX markets since the unfair operation on LIBOR raised doubts over FX indicators has also driven the speculators to become more cautious about making transactions. Nonetheless, one of the latest business models that had once complemented the

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7 According to BIS Quarterly Review, December 2016 "Downsized FX markets: causes and implications", the reasons for decreased trading through prime brokers are multiple, and as for the backgrounds on the side of investment banks that provide service, the report points out, other than touched here, that they screened the customers strictly to take priority for the market maker customers who have a large volume of transactions, thus retreating from retail businesses. Also as for the circumstances on the side of hedge funds, it pointed out, among others, that their activity level shrunk with assets outstanding managed by global macro funds (excluding commodities) declining from $130 billion as of immediately after the crisis to less than half of the former, around $60 billion by the middle of 2016.

8 Quoted from Bank of Japan Review "Speed Up and Automation of Trading in the FX Markets: Change of Market Structure and New Issues".

promotion of FX businesses has been forced by various factors to make comprehensive reviews and presumably become a factor to decease of FX transactions.

(4) Implications of Decreased FX Trading Volume

All in all, we can observe from the BIS Survey that in FX markets the activity level of speculative participants has declined while the transactions focusing on risk hedging and liquidity management expanded mainly among long-term investors and banks, and inextricably linked with that, spot transactions decreased as against the notable increase of FX swaps, showing a substantial shift from risk appetite to risk mitigation. In the background of this change, it seems that, in addition to the stagnant world economy that is explained by the secular stagnation hypothesis and others, there have been various other factors including of policy aspect like divergence of monetary policies, and institutional aspect like strengthened financial regulations, which affected the markets in multiple ways to cause the decrease in turnover for the first time in 15 years.

Although the prolonged slow growth has continued globally, the world economy has maintained a growth rate of around 3% at an annual rate[9], the decrease of FX turnover by more than 5% is nonetheless large. In the background there may be a possibility that not only the change in the macroeconomic fundamentals but also what-should-be-called an ecosystem change that covers policies and institutions is occurring in the FX markets. The implication of the decrease in turnover of FX trading may be said to be deeper than it looks.

Figure 3：Global Turnover of Renminbi

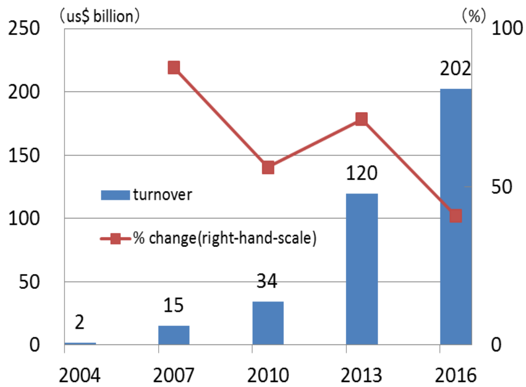
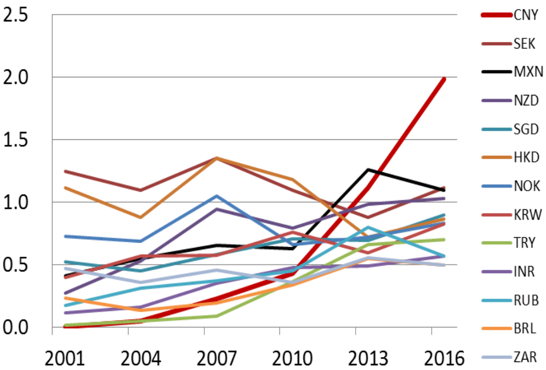


Figure 4：Renminbi's Share (%)



(Source) BIS Triennial Central Bank Survey 2016

3. Chinese Renminbi and Asian Market

Now let us see the turnover by currency and region. As shown in Table 1, the expansion of the renminbi transaction and Asian market was one of the important observations in the 2016

9 According to the Jan 2017 WEO of the IMF, the growth rates of the global economy were 3.4% in 2014, 3.2% in 2015, and that for 2016 was forecast at 3.1%.

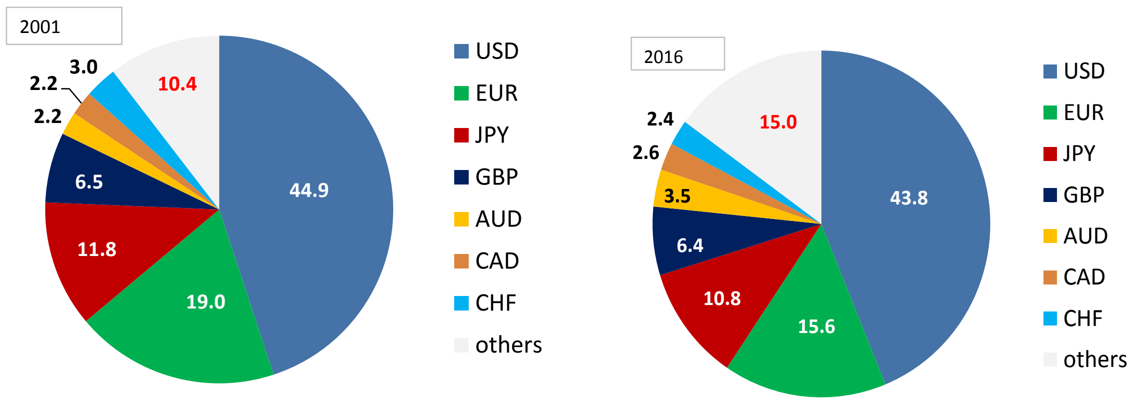
BIS Survey. Although there is no surprise for the expansion itself, the notable increase of the renminbi trading as against the decreasing global transactions should be given a special attention. It has been an important pillar of renminbi strategy that the Chinese government promotes that “the renminbi becomes a more actively traded currency”, and in that sense the result of the survey may suggest a progress in its internationalization strategy.

（1）Expansion of the RMB Trading

The turnover of the renminbi trading has been remarkably increasing with each survey, reaching $202.1 billion per day by the latest survey, while its global share recorded 2.0% (Figure 3 and 4). In the previous survey of 2013 the Mexican peso was the most heavily traded currency among emerging market currencies, but this time the renminbi overtook the Mexican peso to rank the top among them with the trading turnover recording almost double of the Mexican peso. Globally, the renminbi rose to the 8^{th} ranking, exceeding the Swedish crone ($112.3 billion, or 1.1%) and NZ dollar ($104.0 billion, 1.0%) and coming close to the sixth Canadian dollar ($260.4 billion, share 2.6%) and the seventh Swiss franc ($243.4 billion, 2.4%).

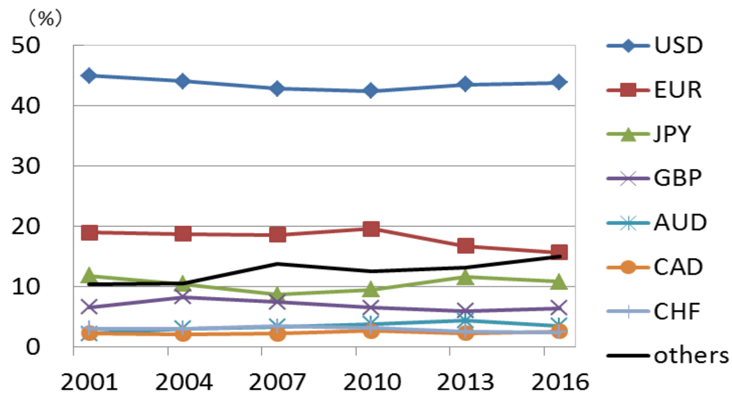
When we reconfirm the trading shares of the globally traded currencies, the largest seven currencies have seen no change in the last 15 years. Especially the top four have had the same rank and order of the US dollar, euro, Japanese yen followed by the pound sterling. The Australian dollar, Canadian dollar and Swiss franc followed them while shifting their places among the fifth to seventh. Since 2010 the Australian dollar established its rank as 5^{th}, resulting in the fixation in the rank of the highest 5 currencies in the global turnover. Meanwhile, emerging market currencies ranking 8^{th} and below expanded their trading as a whole (share of the currencies other than the highest 7 currencies expanded from 10.4% in 2010 to 15.0% in 2016). (Figure 5) The turnover of the emerging market currencies used to have a share of around 0.5-1.0% respectively but the renminbi rose out of them in the latest survey to approach the group of top seven advanced economies. (Figure 4) In other words, as far as the turnover of FX trading is concerned, the renminbi has grown close to join the group of hard currencies.

Figure 5：Turnover Share of Major Currencies in the FX markets（%）



（Source） BIS Triennial Central Bank Survey 2016

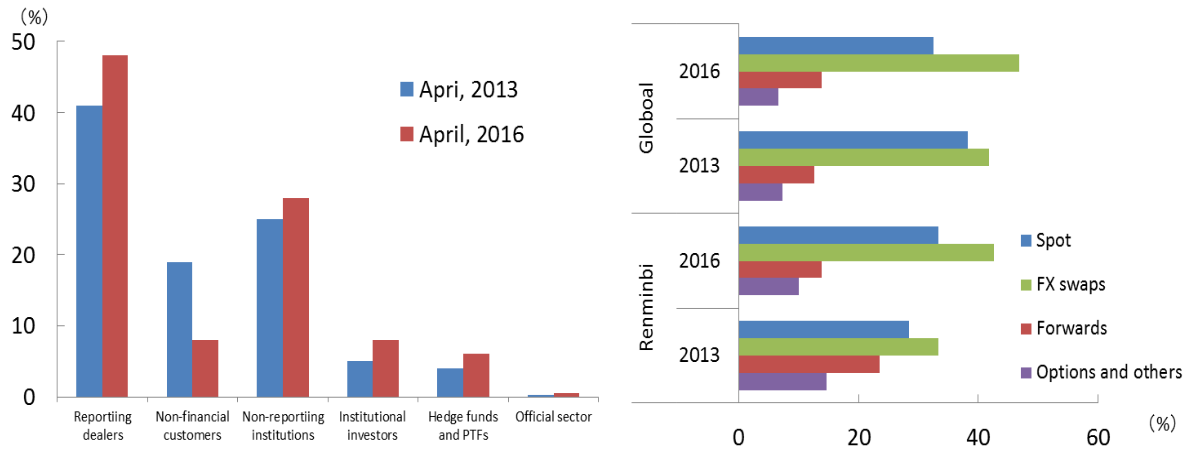
Figure 6：Turnover Share of Major Currencies in FX Markets（%）



（Source） BIS Triennial Central Bank Survey 2016

The expansion of the renminbi trading reflects the fact that it grew out of the stage of its use only for real demand transactions and trade settlements to enter the highly sophisticated financial stage that enables various transactions including those in derivatives. The survey results show that by instrument, spot transactions had a share of about 30%, while the share of FX swap transactions expanding to more than 40%. The share of forward transactions which used to take a relatively large portion declined. As a result, the composition of the renminbi transactions is approaching almost to "an international standard," or the shares in total transaction of globally traded currencies. (Figure 7, right hand panel). Similarly by counterparty, the share of reporting dealers (large banks and securities firms) expanded by the latest survey from 41% to 48% while non-financial customers largely lowered their level of activities from 19 % to 8%. (Figure 7, left-hand panel). This breakdown also compares close to the global distribution.

Figure7：Renminbi trading by counterparty (left) and by instrument (right)

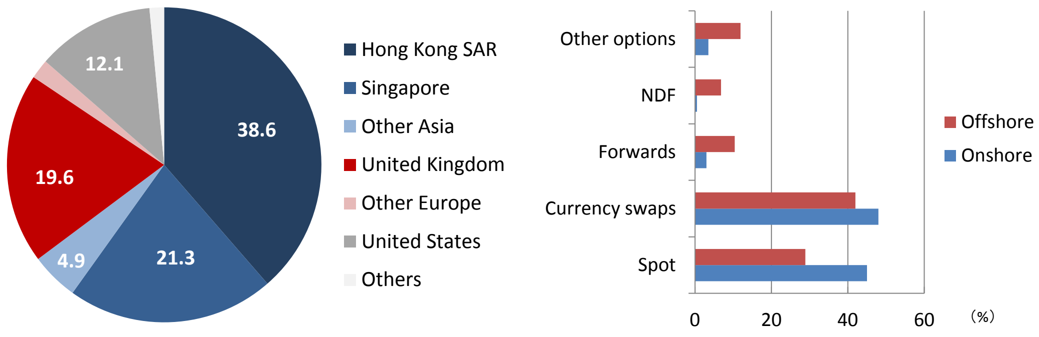


（Source）BIS Triennial Central Bank Survey 2016

（2）Expanding Asian Market by Incorporating the RMB Trading

The most notable characteristic of the renminbi trading lies in a big presence of its offshore markets. Its main markets are the Hong Kong market where the first NDF transaction of the renminbi started in 1996, followed by the Singapore market, these two constituting integrated centers for offshore renminbi businesses. (Figure 8, left-hand panel) Just as reflecting the expansion of the renminbi trading, both Singapore market (global share rising from 5.7% in 2013 to 7.9% in 2016) and Hong Kong market (rising from 4.1% in 2013 to 6.7% in 2016) greatly increased their presence. (Figure 9) The growth of both markets may have reflected, in addition to their success in incorporating the renminbi trading by taking advantage of their superiority in geometric and historic relationship with China and the expansion of global value chains that mirror them, also the increase of transactions in their own currencies as well as the neighborhoods' other than the renminbi. Tokyo market is also benefitted from its location that belongs to Asia, and its global share increased to 6.1% from 5.6% in the previous survey, although it falls behind the Singapore and Hong Kong markets in the share in the renminbi trading. Although actually 65% of the renminbi trading was executed in the Asian market with its monopoly continuing, the horizon of its market has been expanding as is seen in the case of NY market whose share expanded to 12% from 7% in the previous survey.

Figure 8：Offshore renminbi trading by region (left) and by instrument (right）2016 , %



（Source） BIS Quarterly Review December 2016

（3） Remaining Challenges for Internationalization of the RMB

Although the entrance of the renminbi into the community of international currencies looms into view, there remain many challenges for a full-fledged internationalization. On the FX transactions, 95% of its transactions were concentrated in trading against the US dollar, with few opportunities for trading against other currencies than the US dollar. Differences between onshore and offshore financial products and prices are still large with limited trading of derivatives on the onshore market, while the weight of spot transactions is very large, showing very different aspects between on-shore and off-shore-markets. (Figure 8, right-hand panel) Also new capital controls have been introduced to make it a currency much protected by many regulations. Further it has a constraint on settlement as it is not yet included CLS[10] networks. Rapid increase of its trading and diversification of means of trading illustrate the progress in its internationalization process, which is to be welcomed, but improvement and reform of its policy making process and institutions will be challenges still to be pursued.

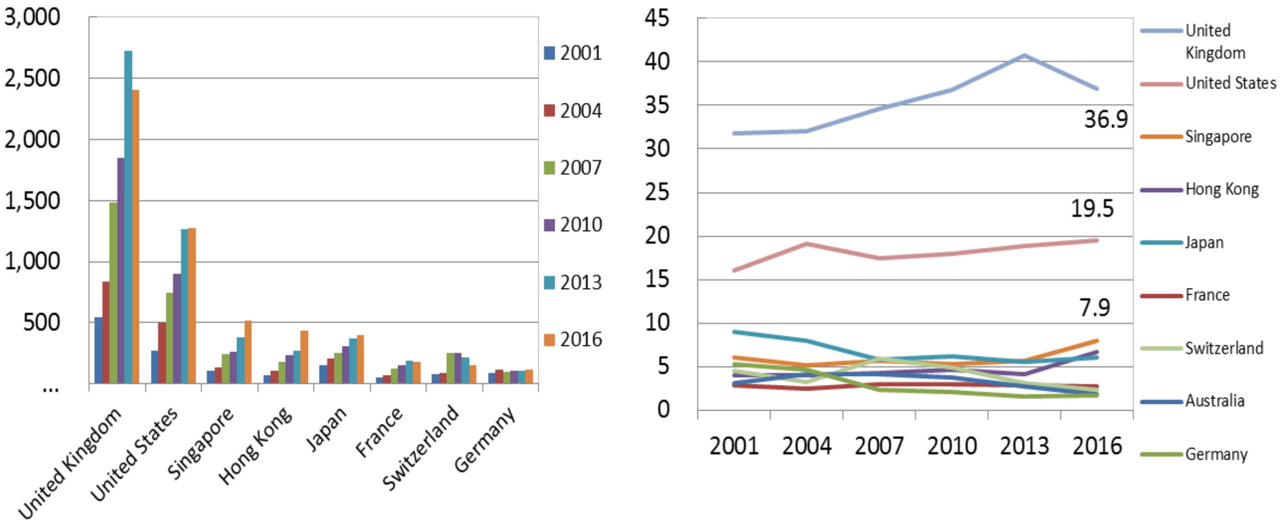
4. Conclusion: Continued High Dependency on the US Dollar

As we have seen thus far, the points related to the Table 1 highlighted that the prolonged slow growth of the world economy after the global financial crisis and a significant structural change in the world economy following the emergence of the Chinese economy triggered a change in transaction methods and composition. In contrast, Table 1-3) shows the “continued dependency on US dollar in FX trading” which suggests that the unipolar domination of the dollar continues as ever in the FX markets despite the big structural changes the world economy has faced. The dollar has maintained its dominant share of around 44% in the global trading with no big change

[10] CLS stands for Continuous Linked Settlement Bank. It provides multicurrency settlement service to reduce settlement risks for FX transactions and it started operation in 2002. It is a system to eliminate a time lag by executing the cash payments of both counterparts at the same time and on the same place. Currently it deals with settlements of FX transactions in 18 major currencies.

from 15 years ago, in the backdrop of other advanced market currencies than the US dollar generally losing their global shares. (Figure 5) Emerging market currencies have generally increased their shares but most of their currency pairs are supposed to be the US dollar, and as was touched above, the latest survey confirms that 95% of the renminbi trading had a currency pair of the US dollar.

Figure 9：FX trading by region：Volume (left) and share (right, %)

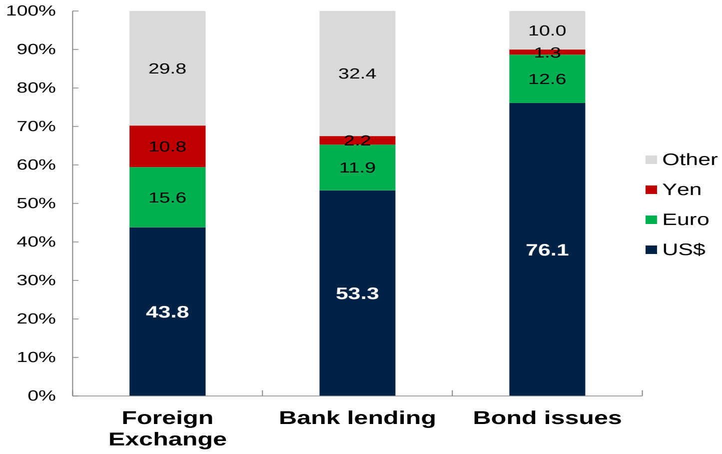


（Source）BIS Triennial Central Bank Survey 2016

The current survey results also confirm the conclusion on a kind of elimination method that continuation of “the unipolar domination of the US dollar” resulted from the non-availability of any alternative currency replacing or comparable to the US dollar, while they suggest a kind of retreat of major currencies other than the US dollar and markets other than in the US and Asia. Although there is some influence of the appreciation of the dollar, all of the major currencies, i.e., the second-ranked euro (16.7% to 15.75), the third-ranked Japanese yen (11.5% to 10.8%) and the fifth-ranked Australian dollar (4.3% to 3.4%) lost their share in the global trading from that in the previous survey. Also, particularly notable was the decline of the London market, the largest FX market in the world with its share of trading dropping from 40.8% in the previous survey to 36.9% in the latest survey. The Australian and Swiss markets also lost their share from 2.7% and 3.2% to 1.9% and 2.4%, respectively.

In this context, the NY market maintained a share of 19.5%, continuing to hold around 20% share during the past 15 years. One of the presumed reasons in the background may be the existence of American banks that are positively promoting electronic brokered transactions. According to the 2016 FX Survey conducted by the “Euromoney”, permeation of electronic broking caused a concentration of FX trading and top 5 banks monopolized about 45% of the total flow of FX trading, 3 of which are American banks.

Figure 10：US Dollar denominated financial transactions(global share, %)



（Source） World Bank Global Economic Prospects January 2017

In the history of currency regimes, at each juncture big shocks and imbalances in the financial markets occurred, like the Nixon shock in 1972, Plaza Accord in 1985, and global financial crisis in 2008, the unipolar domination of the dollar often referred as an obstacle. However, what happened at the time of financial crisis in 2008 was a heightened demand on the dollar, rather than a dollar depreciation or dollar crisis. Many of the market participants rushed to secure the liquidity in dollars, a currency of country that was the epicenter of the crisis, which resulted in the appreciation of the dollar in the FX markets. Further as is shown in Figure 10, the ratio of dollar denomination is still quite high not only in the FX markets but also in bank lending and bond issues. Currently, the decline of the US political leadership and economic power has been called into question in many ways, but at the same time, it still maintains a large influence on the financial markets. The gap between them is widening, which is concerned as a factor that may increase uncertainties in the global financial markets.

The world financial markets are running about in confusion upon each decision taken by the US Federal Reserve Bank that promotes in a solemn manner the normalization process of its monetary policy, but this shows the other side of the same coin that nearly half of the FX trading has been done in the US dollar. In a global situation which is undergoing big structural changes politically and economically, the continuation of the old currency regime of the unipolar domination of the dollar equals to the situation in the old saying of "putting new wine into old bottles" and the existence of old bottles seems to be one of the backgrounds that induce the instability in the global financial markets.

Address: 3-2, Nihombashi Hongokucho 1-Chome, Chuo-ku, Tokyo 103-0021, Japan
Telephone: 81-3-3245-6934, Facsimile: 81-3-3231-5422
〒103-0021　東京都中央区日本橋本石町 1-3-2
電話：03-3245-6934（代）ファックス：03-3231-5422
e-mail: admin@iima.or.jp　URL: http://www.iima.or.jp