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FX Derivatives Trading on Exchanges Rises 23%: BIS Survey

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Trading in foreign exchange derivatives on global exchanges recovered in the second quarter with turnover increasing 23% to \$5.9 trillion from \$4.8 trillion in the previous quarter, according to the Bank for International Settlements.

The gain in activity among the major currencies was particularly marked for contracts with one leg in sterling, the BIS said in its quarterly report released on 14 September.

A significant increase in notional amounts of futures contracts in currency segments including the Australian and Canadian dollar, Swiss franc and New Zealand dollar possibly reflected renewed interest in FX carry trades as investors' confidence returned, the BIS said.

Total derivatives turnover based on notional amounts increased to \$426 trillion from \$366 trillion in the previous quarter, consistent with a return of risk appetite. Turnover in the short-term interest rates segment accounted for 80% of the total, rising to \$344 trillion in the second quarter from \$294 trillion in the previous one. The increase was most marked in US dollar contracts, followed by euro, sterling and yen contracts, the BIS said.

In particular, turnover in futures on three-month eurodollar rates picked up sharply to \$115 trillion from \$96 trillion in the previous quarter, possibly due to stabilising money market conditions amid a gradual retreat of concerns over the financial system.

Trading in commodity futures and options increased slightly in the second quarter, the BIS said. Global turnover in commodity derivatives measured in numbers of contracts stood at 446 million, compared to 423 million in the previous quarter. Major contributors were contracts on agricultural products and non-precious metals, while trading in energy derivatives fell.

Turnover in equity index derivatives also increased in the second quarter, from \$37 trillion to \$43 trillion. The increase was attributable in large part to the Korean market, where trading volumes rose significantly from \$7.6 trillion to \$12.0 trillion in the second quarter chiefly as a result of rising equity valuations. Global turnover measured in the number of contracts traded rose only by less than 100 billion.

Overall, the second quarter of 2009 saw a rebound in activity on the international derivatives exchanges, although trading volumes were still well below the pre-crisis level two years ago, the BIS said.