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FOREIGN EXCHANGE AND DERIVATIVES MARKET TURNOVER IN ITALY

In April 2007 the Ufficio Italiano dei Cambi conducted the customary triennial survey of the volume of foreign exchange and derivatives market transactions carried out by the major resident banks. This survey was conducted simultaneously by 54 central banks and monetary authorities, co-ordinated by the Bank for International Settlements, which is to release the preliminary global results, after adjusting for cross-border double-counting.

The Italian survey was conducted on a sample of 27 banks (26 Italian banks and 1 branch of a foreign bank in Italy). Their share of the foreign exchange and derivatives markets is estimated at 82 and 92 per cent respectively, whereas the sample of the 2004 survey accounted for 92 and 84 per cent. Data are computed on a daily basis and are adjusted for local dealers double-counting.

In April 2007 the total gross volume of foreign exchange transactions by the banking system, taking into account the coverage of the sample, amounted to $856 billion dollars, or $824 billion after adjusting for local double-counting (compared with $481 and $456 billion in 2004). On a daily average basis (19 trading days in April 2007) the net turnover may be estimated at around $43 billion ($22 billion in 2004). Counting both foreign exchange transactions and derivatives transactions, gross volume amounted to $1,538 billion, or $1,481 billion after adjusting for local double-counting (against $1,609 and $1,490 billion in 2004). Average daily turnover amounted to $78 billion ($71 billion in 2001).

The results of the 2007 survey show a change in the structure of the market highlighted in the 2004 survey. Foreign exchange instruments exceed in volume terms interest rate products and represent again the largest component of the market. The proportion of trading with bank counterparties, mainly international, increased especially in the interest rate segment, while it declined in favour of trading with non financial entities in the foreign exchange segment. The decline in inter-dealer activity contributed to the underlying trend.

The foreign exchange market, excluding derivatives, recorded an increase of its contribution to total activity (53 per cent; 33 and 41 per cent in 2004 and 2001 respectively), especially thanks to the forward segment which doubled its volume. In contrast with the increase in the foreign exchange market, a contraction was recorded in the market in interest rate derivatives. The volume of interest rate derivatives fell from around $947 billion to $616 billion.

Swaps remain the most used type of instrument. The volume of swaps was predominant in both the forward exchange market (83 per cent) and the interest rate market (82 per cent). While outright forwards rose by two thirds in absolute terms, forward rate agreements lost their importance. The volume of currency options halved while interest rate options registered a modest increase.

A high proportion of interbank transactions marked business in the markets; the activity was mainly carried out with foreign counterparties, almost all of them banks. The share of resident banks decreased in both the foreign exchange market (4 per cent) and the interest rate market (3 per cent), while that of other financial institutions declined in both the foreign exchange and the interest rate segment (respectively from 27 to 12 and from 11 to 8 per cent). Unlike international transactions, domestic activity was concentrated with customers.

Transactions denominated in euro prevailed in both the foreign exchange and the derivatives markets, accounting for around 86 per cent (78 per cent in 2004) of total turnover. With regard to the distribution by currency, the dollar continued to play the dominant role in both the spot and the forward markets. The currency pair euro/dollar accounted for around 82 per cent of total transactions against the euro (88 per cent excluding the spot market). In the interest rate market contracts referring to the euro amounted to 90 per cent and contracts referring to the dollar reached 7 per cent.

Table 1

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007

(data reported - millions of us dollars)

category	2007 - turnover gross				2004 - turnover gross			
	total	share	share	daily	total	share	share	daily
Foreign Exchange market	701,544	52.8%		36,923	442,635	31.8%		21,078
Spot market	220,787	16.6%		11,620	196,686	14.2%		9,366
Forward market	480,758	36.2%		25,303	245,949	17.7%		11,712
Foreign exchange derivatives	41,499	3.1%	7%	2,184	78,617	5.7%	8%	3,744
Interest rate derivatives	586,565	44.1%	93%	30,872	868,734	62.5%	92%	41,368
Total gross Turnover	1,329,609			69,979	1,389,986			66,190

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007

(data expanded - millions of us dollars)

category	2007 - turnover gross				2004 - turnover gross			
	total	share	share	daily	total	share	share	daily
Foreign Exchange market	855,543	55.6%		45,029	481,125	29.9%		22,911
Spot market	269,252	17.5%		14,171	213,789	13.3%		10,180
Forward market	586,290	38.1%		30,857	267,336	16.6%		12,730
Foreign exchange derivatives	45,108	2.9%	7%	2,374	93,592	5.8%	8%	4,457
Interest rate derivatives	637,571	41.4%	93%	33,556	1,034,207	64.3%	92%	49,248
Total gross Turnover	1,538,221			80,959	1,608,924			76,615

Table 1

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007

(data reported - millions of us dollars)

category	2007 - turnover 'local-net'				2004 - turnover 'local-net'			
	total	share	share	daily	total	share	share	daily
Foreign Exchange market	675,702	52.8%		35,563	419,290	32.6%		19,966
Spot market	213,837	16.7%		11,255	182,319	14.2%		8,682
Forward market	461,865	36.1%		24,309	236,971	18.4%		11,284
Foreign exchange derivatives	37,819	3.0%	6%	1,990	73,604	5.7%	8%	3,505
Interest rate derivatives	566,889	44.3%	94%	29,836	795,108	61.7%	92%	37,862
Total 'local-net' Turnover	1,280,409			67,390	1,288,001			61,333

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007

(data expanded - millions of us dollars)

category	2007 - turnover 'local-net'				2004 - turnover 'local-net'			
	total	share	share	daily	total	share	share	daily
Foreign Exchange market	824,027	55.6%		43,370	455,749	30.6%		21,702
Spot market	260,777	17.6%		13,725	198,172	13.3%		9,437
Forward market	563,250	38.0%		29,645	257,577	17.3%		12,266
Foreign exchange derivatives	41,108	2.8%	6%	2,164	87,624	5.9%	8%	4,173
Interest rate derivatives	616,184	41.6%	94%	32,431	946,557	63.5%	92%	45,074
Total 'local-net' Turnover	1,481,318			77,964	1,489,930			70,949

Table 2

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007

(data reported - millions of us dollars)

category / instrument	grand total	total dom.cur.	o/w euro / usd	total for.cur.	o/w usd
Foreign Exchange market	**713,520**	**589,171**	**481,131**	**124,349**	**121,716**
o/w		**82.6%**	**81.7%**	**17.4%**	**97.9%**
Spot	213,837	189,821	127,987	24,016	23,162
Outright forwards	48,461	40,520	33,581	7,941	7,827
F.E.Swaps	413,403	328,662	297,319	84,742	84,490
Currency swaps	2,393	2,193	1,500	200	200
Options	35,426	27,976	20,744	7,450	6,037
Other products	-	-	-	-	-
Interest rates market	**566,889**	**510,819**		**56,070**	**39,528**
o/w		**90.1%**		**9.9%**	**7.0%**
F.R.A.	48,451	29,883		18,568	13,557
Swaps	467,087	431,589		35,498	24,470
Options	51,351	49,347		2,004	1,501
Other products	-	-		-	-
Total markets	**1,280,409**	**1,099,990**		**180,419**	**161,244**
		85.9%		**14.1%**	**89.4%**

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2004

(data reported - millions of us dollars)

category / instrument	grand total	total dom.cur.	o/w euro / usd	total for.cur.	o/w usd
Foreign Exchange market	**492,894**	**367,984**	**296,356**	**124,910**	**121,973**
o/w		**74.7%**	**80.5%**	**25.3%**	**97.6%**
Spot	182,319	142,200	107,008	40,119	39,818
Outright forwards	29,111	25,886	18,364	3,225	3,071
F.E.Swaps	207,861	150,239	135,465	57,622	57,414
Currency swaps	4,882	4,719	1,888	164	155
Options	68,722	44,941	33,632	23,781	21,515
Other products	-	-	-	-	-
Interest rates market	**795,108**	**635,211**		**159,897**	**144,618**
o/w		**79.9%**		**20.1%**	**18.2%**
F.R.A.	168,518	122,582		45,937	44,881
Swaps	580,870	472,098		108,772	95,671
Options	45,720	40,531		5,189	4,067
Other products	-	-		-	-
Total markets	**1,288,001**	**1,003,195**		**284,807**	**266,591**
		77.9%		**22.1%**	**93.6%**

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2007
(millions of us dollars)

category	Foreign Exchange		Interest Rates		Total	
	Notional amounts	share	Notional amounts	share	Notional amounts	share
Total reported gross	**743,044**		**586,565**		**1,329,609**	
Total reported 'local-net'	**713,520**		**566,889**		**1,280,409**	
o/w						
with local dealers	29,546	**4%**	19,679	**3%**	49,225	**4%**
with crossborder dealers	494,783	**69%**	490,936	**87%**	985,719	**77%**
with other financial institutions	83,569	**12%**	45,580	**8%**	129,149	**10%**
with customers	105,622	**15%**	10,694	**2%**	116,316	**9%**

Turnover in notional amounts of foreign exchange and interest rate derivatives contracts in the month of April 2004
(millions of us dollars)

category	Foreign Exchange		Interest Rates		Total	
	Notional amounts	share	Notional amounts	share	Notional amounts	share
Total reported gross	**521,252**		**868,734**		**1,389,986**	
Total reported 'local-net'	**492,894**		**795,108**		**1,288,001**	
o/w						
with local dealers	28,360	**6%**	73,627	**9%**	101,986	**8%**
with crossborder dealers	294,511	**60%**	622,725	**78%**	917,236	**71%**
with other financial institutions	135,262	**27%**	88,045	**11%**	223,307	**17%**
with customers	34,760	**7%**	10,711	**1%**	45,471	**4%**