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FOREIGN EXCHANGE AND OTC DERIVATIVES MARKET TURNOVER IN ITALY

In April 2016 the Bank of Italy conducted the customary triennial survey of the volume of foreign exchange and OTC derivatives market transactions carried out by the major resident banks. The survey was performed by 52 central banks and monetary authorities, and coordinated by the Bank for International Settlements (BIS). In this press release the Bank of Italy is releasing the national results, as the other participating institutions are doing in their respective countries; at the same time, the BIS will release the preliminary global findings after adjusting for cross-border double-counting (<http://www.bis.org/publ/rpfx16.htm>).

The Italian survey was conducted on a sample of 34 banks (31 Italian banks and 3 branches of foreign banks). According to the information contained in the supervisory reports transmitted to the Bank of Italy, these banks' activities account for between 95 and 97 per cent of the transactions made in the foreign exchange and derivatives markets, a similar share to that reported in 2013. The data refer to the entire month of April and are computed daily, dividing the total by the number of trading days in the month (20); they are adjusted to eliminate double-counting of transactions between local dealers but not cross-border double-counting, which is done by the BIS.

In April 2016 the total volume of foreign exchange and derivatives transactions carried out by the whole banking system amounted to \$367 billion, down from \$494 billion in 2013 (Table 1). For the total of foreign exchange market plus interest rate derivatives products, the monthly volume came to \$657 billion, against \$994 billion in 2013.

The volume of foreign exchange transactions contracted by around one fourth (\$127 billion) compared with 2013, though it did increase its contribution to overall turnover (to 52.6 per cent, compared with 47.6 per cent). In the forward segment, which incorporates outright forwards and FX swaps, turnover fell from \$334 billion to \$296 billion, while in the spot segment it declined from \$139 billion to \$49 billion. At 3.2 per cent, currency swaps and options increased their contribution to overall turnover (these transactions amounted to \$21 billion, same as in 2013). The volume of interest rate derivatives products declined from \$500 billion to \$291 billion, and their share of total turnover fell from 50.3 to 44.2 per cent.

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According to the data provided by the sample, swaps remain the most widespread instrument, accounting for the largest share of volume in both the foreign exchange market (\$276 billion; Table 2) and the interest rate derivatives market (\$224 billion; Table 3). While in the interest rate derivatives market the share of forward rate agreements fell to \$54 billion, from \$188 billion in 2013, in the foreign exchange market the volume of outright forwards rose to \$18 billion and their share of the total to 5 per cent (3 per cent in 2013). Compared with 2013, the volume of interest rate options fell by more than 70 per cent (from \$14 billion to \$4 billion), while foreign exchange options contracted by about 21 per cent (to \$13 billion, from \$16 billion in 2013); in 2016 these transactions accounted for 1 per cent of turnover in the interest rate derivatives market and 4 per cent in the foreign exchange market.

The euro continued to dominate the dollar as the currency of choice for foreign exchange market contracts (81 versus 74 per cent in 2016, and 84 versus 69 per cent in 2013) in both the spot and forward segments (Table 2; Figure 1). The currency pair euro/dollar accounted for 69 per cent of total transactions against the euro (70 per cent excluding the spot market). In other currency pairs, accounting for 19 per cent of total transactions, the US dollar continued to be by far the most dominant. The interest rate derivatives market was dominated by the euro, which accounted for more than 93 per cent of all contracts, while the contribution of other currencies was very modest (Table 3; Figure 2).

Activity in both the foreign exchange and interest rate derivatives market again included a high proportion of transactions with non-resident banks, though it did decline to 61 per cent from 73 per cent in 2013 (Table 4 and Figure 3). Transactions with resident banks increased from 10 to 12 per cent. The share of transactions with other financial institutions not taking part in the survey increased in both markets (from 6 to 20 per cent overall), while transactions with non-financial counterparties almost halved in the foreign exchange market (from 10 to 6 per cent).

Table 1

Turnover of foreign exchange and derivatives contracts in Italy
(millions of US dollars and per cent)

Category	Sample			Banking system		
	Total	Share	Daily	Total	Share	Daily
	April 2016					
Foreign exchange market	335,431	52.6	16,772	345,806	52.6	17,290
spot market	48,002	7.5	2,400	49,487	7.5	2,474
forward market	287,429	45.1	14,371	296,319	45.1	14,816
Currency derivatives	20,396	3.2	1,020	21,026	3.2	1,051
Foreign exchange and currency derivatives markets	355,827	55.8	17,791	366,832	55.8	18,342
Interest rate derivatives	281,882	44.2	14,094	290,600	44.2	14,530
Total	637,709	100.0	31,885	657,432	100.0	32,872
	April 2013					
Foreign exchange market	454,066	47.6	22,703	472,985	47.6	23,649
spot market	133,844	14.0	6,692	139,420	14.0	6,971
forward market	320,222	33.6	16,011	333,565	33.6	16,678
Currency derivatives	19,811	2.1	991	20,637	2.1	1,032
Foreign exchange and currency derivatives markets	473,877	49.7	23,694	493,622	49.7	24,681
Interest rate derivatives	480,295	50.3	24,015	500,307	50.3	25,015
Total	954,172	100.0	47,709	993,929	100.0	49,696

Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.

Table 2

Turnover of foreign exchange contracts in Italy by instrument

(millions of US dollars and per cent)

Instrument	Euro/ dollar	Euro/ other currencies	Dollar/ other currencies	Other currencies/ other currencies	Grand total	of which		Euro/ dollar	Euro/ other currencies	Dollar/ other currencies	Other currencies/ other currencies	Grand total	of which	
						Total euro	Total dollar						Total euro	Total dollar
						millions of US dollars							percentage share	
April 2016														
Total	199,031	90,698	63,159	2,939	355,827	289,729	262,190	55.9	25.5	17.7	0.8	100.0	81.4	73.7
Spot	27,396	15,162	5,190	254	48,002	42,558	32,586	57.1	31.6	10.8	0.5	100.0	88.7	67.9
Outright forwards	10,491	5,320	1,886	52	17,749	15,811	12,377	59.1	30.0	10.6	0.3	100.0	89.1	69.7
Foreign exch. swaps	149,578	65,123	53,138	1,840	269,680	214,702	202,716	55.5	24.1	19.7	0.7	100.0	79.6	75.2
Currency swaps	4,700	2,229	75	83	7,087	6,929	4,775	66.3	31.5	1.1	1.2	100.0	97.8	67.4
Options	6,866	2,863	2,871	8	12,608	9,729	9,737	54.5	22.7	22.8	0.1	100.0	77.2	77.2
Other products	..	..	..	701	701	..	..	..	..	..	100.0	100.0	..	..
April 2013														
Total	266,314	133,032	58,909	15,622	473,877	399,346	325,223	56.2	28.1	12.4	3.3	100.0	84.3	68.6
Spot	48,821	62,850	9,332	12,841	133,844	111,671	58,153	36.5	47.0	7.0	9.6	100.0	83.4	43.4
Outright forwards	11,171	3,467	1,162	102	15,902	14,638	12,333	70.2	21.8	7.3	0.6	100.0	92.1	77.6
Foreign exch. swaps	196,046	61,457	45,109	1,709	304,321	257,502	241,155	64.4	20.2	14.8	0.6	100.0	84.6	79.2
Currency swaps	2,539	1,242	170	..	3,951	3,781	2,709	64.3	31.4	4.3	..	100.0	95.7	68.6
Options	7,737	4,016	3,137	970	15,860	11,753	10,874	48.8	25.3	19.8	6.1	100.0	74.1	68.6
Other products	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.

Table 3**Turnover of interest rate derivatives contracts in Italy by instrument**

(millions of US dollars and per cent)

Instrument	Euro	Dollar	Other currencies	Grand total	Euro	Dollar	Other currencies	Grand total
	millions of US dollars				percentage share			
	April 2016							
Total	262,636	12,594	6,652	281,882	93.2	4.5	2.4	100.0
Forward rate agreements	52,250	1,405	..	53,655	97.4	2.6	..	100.0
Interest rate swaps	207,065	10,868	6,509	224,443	92.3	4.8	2.9	100.0
Options	3,321	321	143	3,784	87.8	8.5	3.8	100.0
	April 2013							
Total	472,706	6,719	869	480,294	98.4	1.4	0.2	100.0
Forward rate agreements	185,018	2,549	166	187,733	98.6	1.4	0.1	100.0
Interest rate swaps	273,677	4,160	704	278,541	98.3	1.5	0.3	100.0
Options	14,011	10	..	14,021	99.9	0.1	0.0	100.0

Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.

Table 4

Turnover of foreign exchange and derivatives contracts in Italy by counterparty

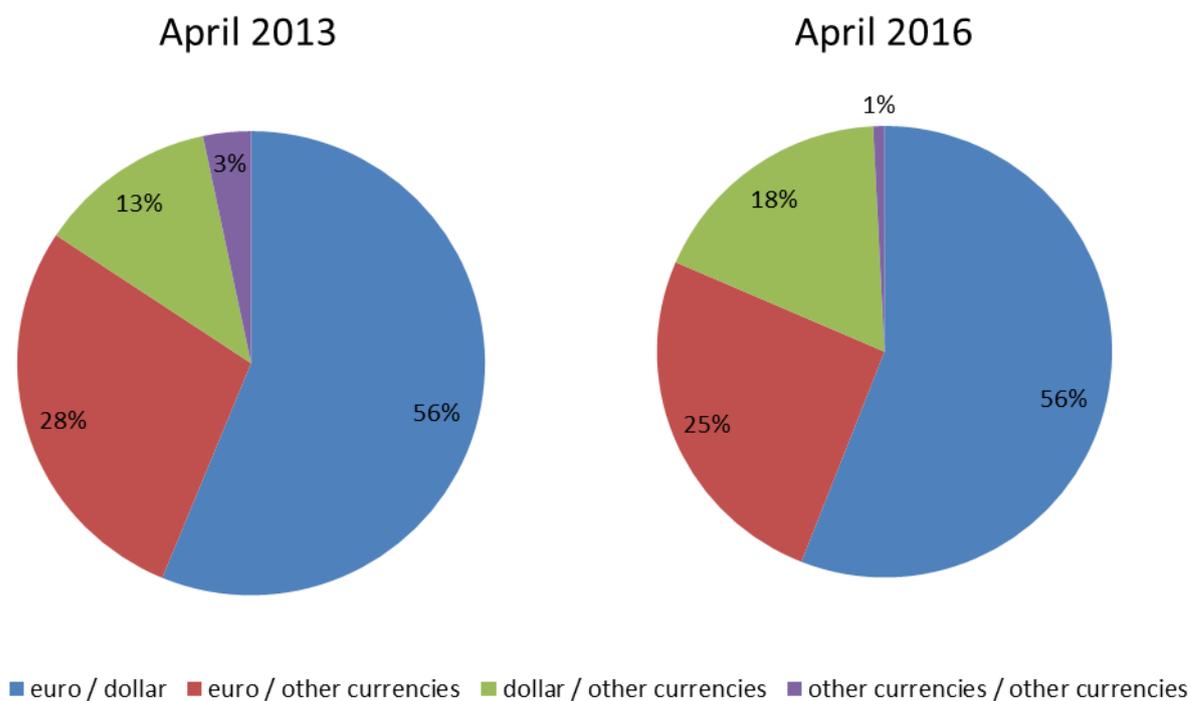
(millions of US dollars and per cent)

Counterparties	Foreign exchange	Interest rate	Total	Foreign exchange	Interest rate	Total
	millions of US dollars			percentage share		
	April 2016					
Total	355,827	281,882	637,709	55.8	44.2	100.0
Local banks (1)	15,267	58,473	73,740	2.4	9.2	11.6
Cross-border banks (2)	282,042	106,938	388,980	44.2	16.8	61.0
Other financial institutions (3)	22,094	107,313	129,407	3.5	16.8	20.3
Other (4)	36,423	9,158	45,581	5.7	1.4	7.1
	April 2013					
Total	473,877	480,295	954,172	49.7	50.3	100.0
Local banks (1)	34,355	56,686	91,041	3.6	5.9	9.5
Cross-border banks (2)	315,670	379,533	695,203	33.1	39.8	72.9
Other financial institutions (3)	24,222	34,704	58,926	2.5	3.6	6.2
Other (4)	99,630	9,371	109,002	10.4	1.0	11.4

Source: Bank of Italy, Survey on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only. (1) Banks resident in Italy participating in the BIS survey. (2) Banks not resident in Italy taking part in the BIS survey. (3) Resident and non-resident financial institutions participating in the BIS survey. (4) Non-financial resident and non-resident counterparties.

Figure 1

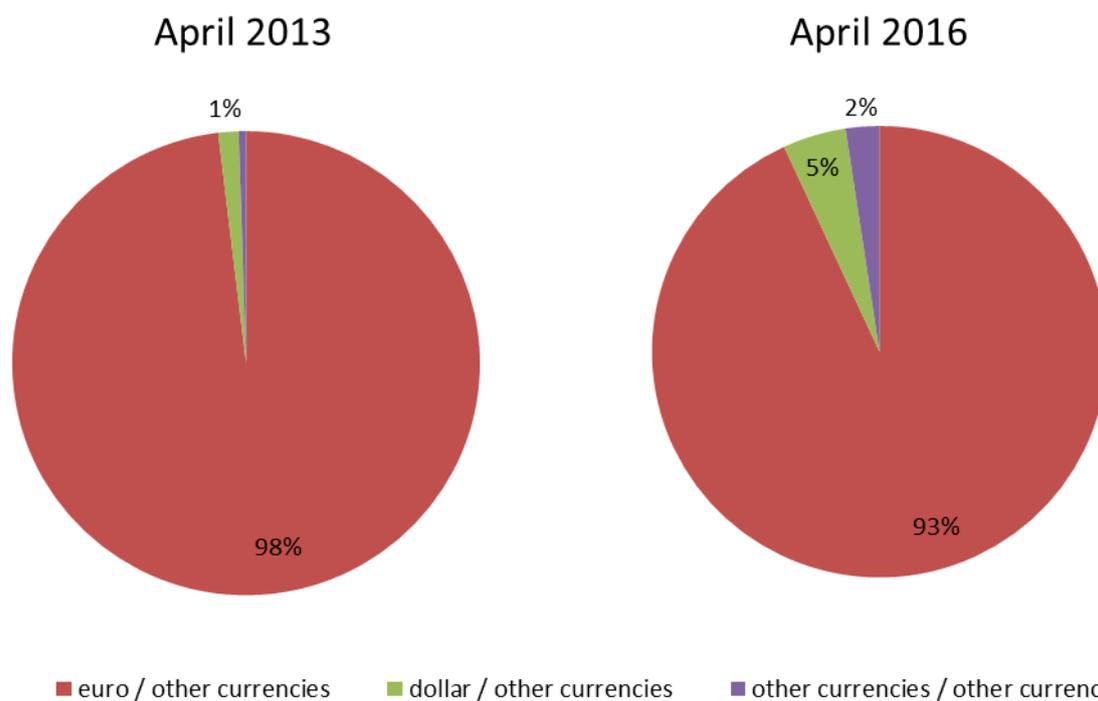
Turnover of foreign exchange contracts in Italy by currency
(percentage share)



Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.

Figure 2

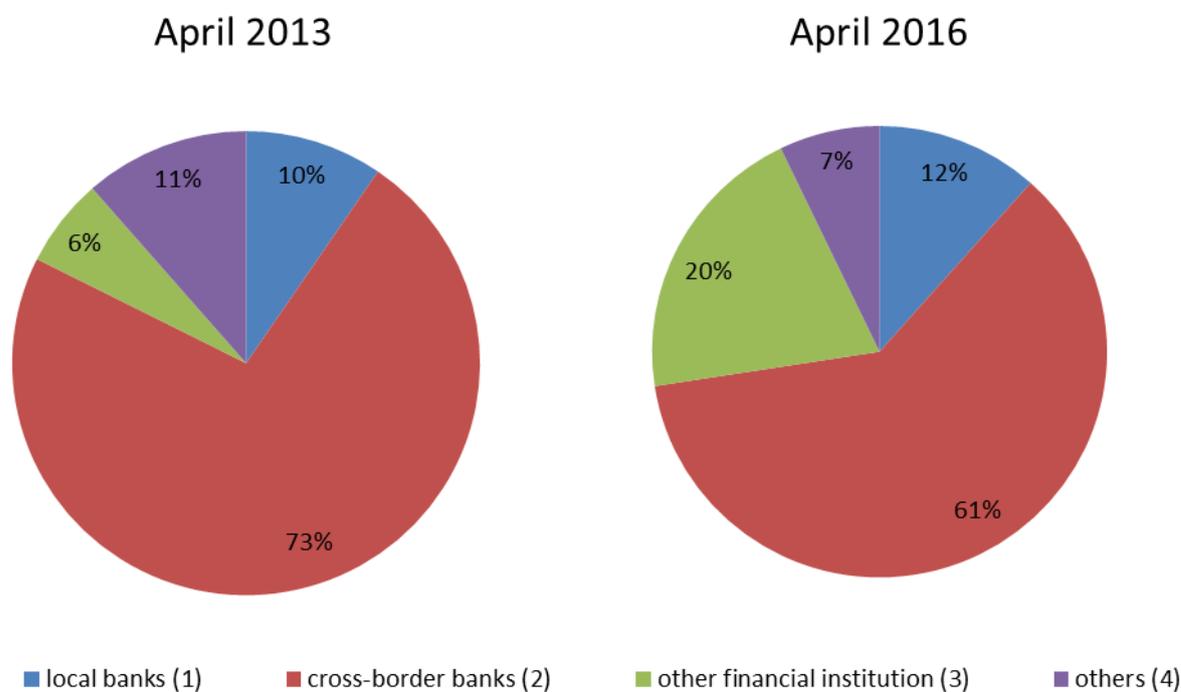
Turnover of interest rate contracts in Italy by currency
(percentage share)



Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.

Figure 3

Turnover of foreign exchange and derivatives contracts in Italy by counterparty
(percentage share)



Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only. (1) Banks resident in Italy participating in the BIS survey. (2) Banks not resident in Italy taking part in the BIS survey. (3) Resident and non-resident financial institutions participating in the BIS survey. (4) Non-financial resident and non-resident counterparties.

APPENDIX

Table A.1

Turnover of foreign exchange and interest rate derivatives contracts in Italy - April 2016
Distribution by currency, rate and instrument
(millions of US dollars)

Currencies	Grand total	Spot	Forwards and swaps	Options	Other
Foreign exchange and derivatives markets	355,827	48,002	287,429	12,608	7,788
Euro against currencies	289,729	42,558	230,513	9,729	6,929
US dollar	199,031	27,396	160,069	6,866	4,700
Japanese yen	14,997	1,837	12,629	531	..
GB pound	45,318	5,433	37,430	921	1,535
Swiss franc	7,852	1,531	5,570	69	683
Other	22,531	6,361	14,815	1,343	11
US dollar against other currencies	63,159	5,190	55,024	2,871	75
Japanese yen	14,985	1,014	13,454	517	..
GB pound	14,568	1,451	12,864	177	75
Swiss franc	7,843	167	7,609	66	..
Others	25,763	2,557	21,096	2,110	..
Other pairs of currencies	2,939	254	1,893	8	784
Interest rate market	281,882		278,097	3,784	..
Euro	262,636	–	259,315	3,321	..
US dollar	12,594	–	12,273	321	..
Japanese yen	..	–	..	..	..
GB pound	5,922	–	5,779	143	..
Swiss franc	8	–	8	..	..
Other	722	–	722	..	..

Source: Bank of Italy, Surveys on Exchange and OTC Derivatives. – The data refer to the participating banks only and are adjusted for double-counting; the derivatives refer to the OTC currency and interest rate derivatives markets only.