



Manfred Wiebogen, President ACI The Financial Markets Association

Foreign Exchange Reserves + 32,4% - the new FX challenge

Foreign Exchange (FX) is the most powerful market in the world. But this is no news. According to the BIS survey one may conclude that the total turnover in global foreign exchange markets is more than 6 times larger than trading in U.S. Treasury bonds and 30 times greater than trading on the New York Stock Exchange (take a look into my last report within e-FOREX 6/2008). Just as a reminder to new readers of this column, the estimated daily traded FX volume is some US\$ 3,500 bn a day (6/2008).

Over the past few years the FX market grew rapidly and by most estimates, the trading volumes will continue to grow. The attractiveness of FX may be in its diverse usage – carry trade, momentum and value trade.

Whilst in previous years FX was exclusively preserved for an elite group of banks, hedge funds and multinational corporations, the market is now accessible to everybody.

Besides the superlative of the daily traded volume in FX, I'd like to draw your attention to yet another superlative which is the growth of foreign exchange reserves throughout the world – mainly in the Asian region and Russia. Exactly one year ago in September 2007, I commented on this topic to Serbian FX traders. Comparing my old figures with these of today I do have to state that FX reserves held by the top ten countries have risen by 32,4% within the last year! Most of this growth is attributable to Brazil (+105,9%), India (+64,4%), Russia (+56,8%) and of course to the People's Republic of China (+43,3%) the leader of this statistic. The Eurozone (as one unit) shows a growth of 16,6% in the same

period. Of further interest might be that Russia overtook ranking 3 from the Eurozone, India and Brazil each advanced two steps ahead and meanwhile Algeria is up with Germany.

The overall figure of World FX reserves is reported to be around US \$ 7,642 bn (average 6/2008) which leaves the top ten (including Eurozone) with a share of 72%!

Interestingly this figure of 72% (top ten reserve holder countries) compares well with another reported figure of top ten league - the top ten FX trading banks, which account for 73% market share. Whilst the biggest reserve holders are reported from Asia and Russia, we can identify the biggest trading banks are home based in Germany, Switzerland, UK and USA.

Now to put this into perspective, foreign exchange reserves are only the foreign currency deposits held

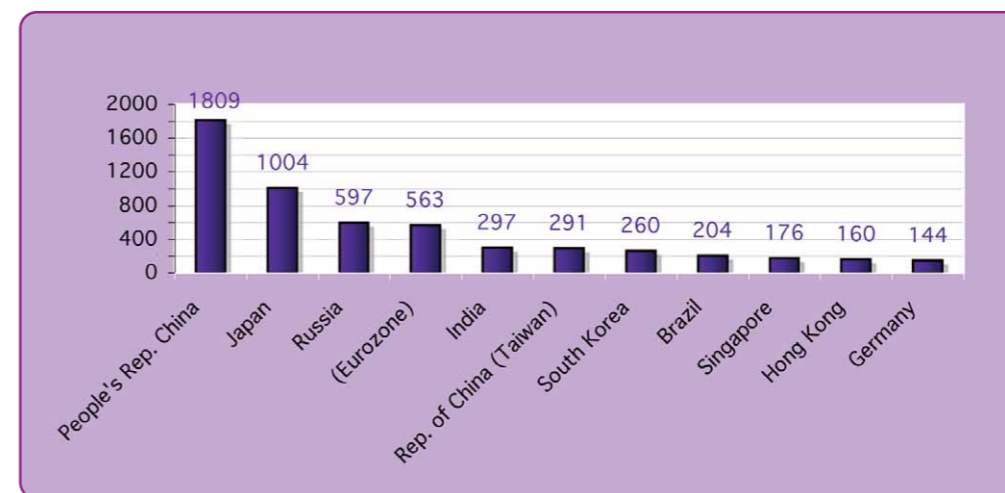


Fig 1: Top ten Foreign Exchange Reserves holders in bn US\$ 6/2008

by central banks and monetary authorities. These assets are held in various reserve currencies such as the US Dollar, the Euro, the Japanese Yen, British Pound and others.

At the end of 2006 some 65% of the world monetary reserves were held in USD and some 25% in EUR (with 4% in GBP and about 3% in JPY). Several Central Banks announced in the past they will

further diversify their reserves and a slow process is underway. At the end of 2007, 63,9% of the reported foreign exchange reserves in the world were held in USD and some 26,5% in EUR.

In the same way, Russia's ambition is to make the Rouble a global reserve currency. At the forthcoming SIBOS Conference, in Vienna, an open discussion on this topic will take place between

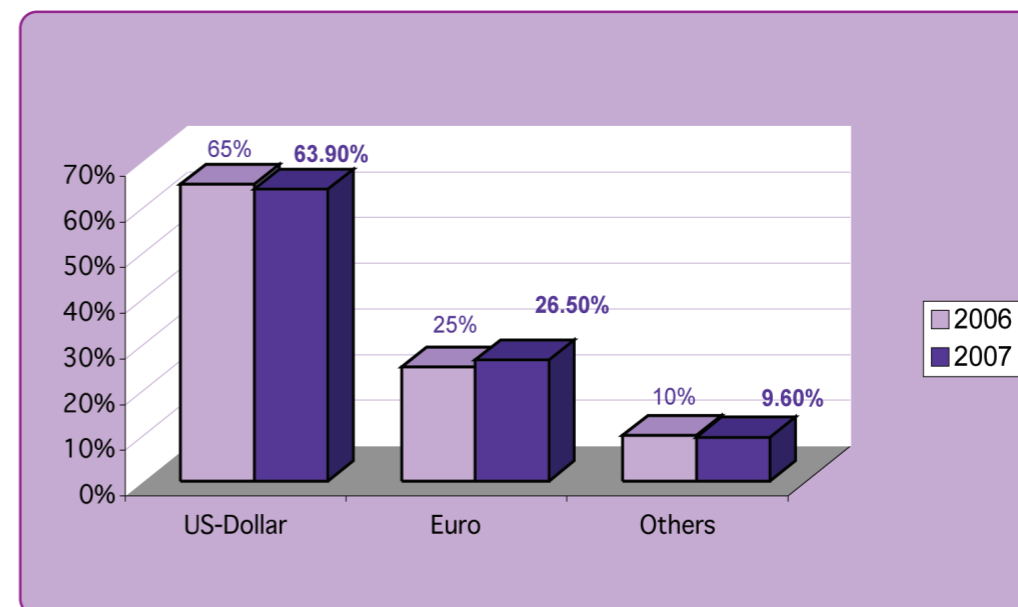


Fig 2: Distribution of reported FX Reserves

representatives from the Russian Central Bank, the MICEX (Moscow Interbank Currency Exchange) and other participants from the Russian market. The same ambition might be expected from China and other countries too. However, even when some processes will need time we do

have to acknowledge that the world has changed – and this includes the financial markets!

More than 50% of the world's population lives in Asia. The impact is the superlative development of the Asian region but also Russia, the Middle East Region and some other areas in terms of production, rising consumption, financial strength and the claim for co-determination in the world's development.

Due to political and economic developments we might expect to

see larger diversification in foreign exchange monetary reserves held by countries. This will gradually reduce the part of USD reserves held by authorities and increases the role of the EUR and other currencies. Any developments are expected to take place in a smooth fashion to avoid confusion with the overall currency structure.