



Manfred Wiebogen, President ACI The Financial Markets Association

NO news – is GOOD news in Financial Markets?!

During the last few months, when speaking and commenting on behalf of ACI, The Financial Markets Association, I often started with the slogan: “NO news – is GOOD news. We are rather tempted not to open the newspaper in the morning as we might be at risk of misconstruing the superlatives being applied to the financial markets”

To be precise: unfortunately superlatives are discrediting the banking profession and in particular the trader’s environment. The headlines have been the same all over the world:

- Tsunami over banking
- Epicenter: JP Morgan takes over Bear Stearns
- Underwater: US-Dollar in free fall

- Equity trader causes a loss of 4.9 bn EUR
- Credit crises – IMF puts cost of credit crisis at \$945 bn
- Liquidity crisis – mistrust amongst banks

The overall trading ambience was at risk of becoming stigmatized and found jointly guilty for failings caused by the liquidity crisis. Sub-prime was a word which most of us had not heard about a year ago – a period during which many traders have been challenged to get by at all and keep markets running whilst staying within their budgets.

Back to superlatives

But let us return to superlatives again. The real one in financial markets – which we all know about – is Foreign Exchange. Well, the latest triennial BIS survey is best known. Take a look at the figure 1 chart overleaf which highlights

the activity in Foreign Exchange:

Did you know that the market in daily Foreign Exchange volume is bigger than those of OTC Interest Rates, US Treasuries, US Equities and Europe, Middle East and Africa Equities put together? The figures are self-explanatory.

The traditional Foreign Exchange market is made up of commercial and investment banks and other financial institutions in the OTC markets. The Interbank market is well developed and there are more than 2,000 dealer institutions worldwide. Although this figure is shrinking because of mergers and acquisitions, the volume in Foreign Exchange is expected to rise still further.

The daily traded FX volume has more than doubled between 2001 and 2007 but an increase by some 50% between 2007 and 2010 might once again still be expected.

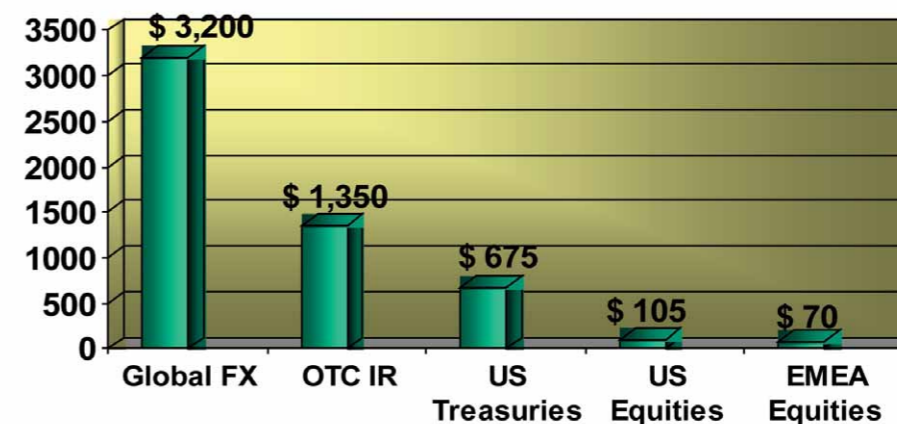


Fig 1: Average Daily Turnover / in USD Billions – Source: BIS 2007 Survey

estimated to be on at least one side of almost 20% of all transactions, compared to less than 16% in April 2004. The largest growth in turnover for emerging market currencies were in transactions between banks and non-financial customers! The future will show interesting developments here.

Finally, let me leave you with another

thought on the FX market: What do you know about the Foreign Exchange Reserves held worldwide by Central Banks or other Authorities? What impact might we expect these to have on the markets and ‘How much is enough?’ Let’s follow this topic up in the next issue of e-FOREX.

This will be largely due to the growing importance of Foreign Exchange as an asset class with an increase in fund asset management, particularly amongst hedge funds and pension funds. During the past few years new investors have entered into the FX markets aiming to enhance their performance. The achieved results were encouraging and the market has grown with them. I am tempted to say that many new market participants or entrants have realised that Foreign Exchange is as reliable and perhaps even a more predictable instrument than e.g. the equity markets (of course depending on economic stage of a cycle).

Emerging market currencies

Besides classical FX trading there is a growing importance of emerging market currencies. The most important emerging market currencies are the Hong Kong Dollar, Polish Zloty and South African Rand. As a result emerging market currencies are

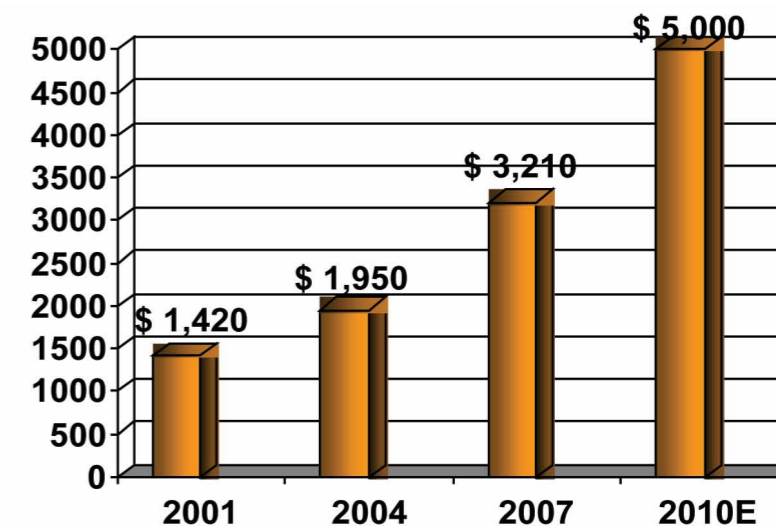


Fig 2: Development Global FX turnover (in bn USD) – Source: BIS 2007 Survey