

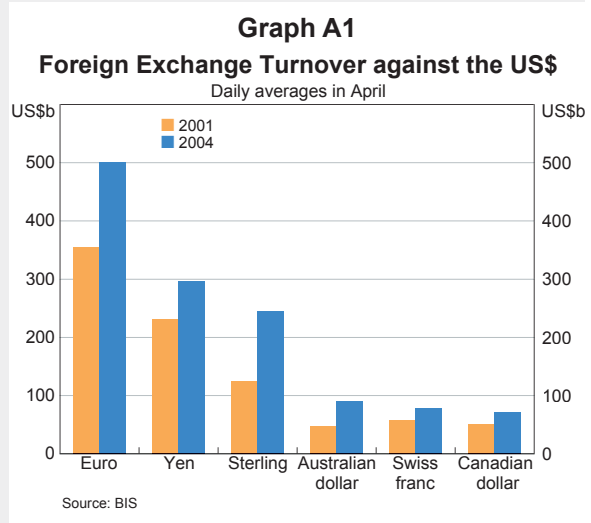
## Box A: Global Foreign Exchange Turnover

Global foreign exchange market turnover rose sharply in the three years between April 2001 and April 2004.<sup>1</sup> In part this represented a return to more normal rates of activity from a subdued level of trading in 2001. At that time, the US dollar bubble was at its peak, and was associated with a buy-and-hold strategy toward US dollar denominated assets. The search for yield has also boosted general interest in foreign exchange as an asset class for investors, and the Australian dollar has benefited more than others, reflecting the positive yield differential available. Hence while turnover has risen noticeably in all markets and in all currencies, the rise in activity in both the Australian dollar and the Australian market was noticeably stronger than the global average. The valuation effects of the rise in the exchange rate from just under US50 cents in April 2001 to around US75 cents in April 2004 were also important in explaining the increase in turnover reported in US dollar terms.

The AUD/USD is now the fourth most traded currency pair in the world, with trading in the euro/USD the highest, followed by the yen/USD and pound sterling against the US dollar (Graph A1). Average daily global turnover of the Australian dollar against the US dollar has increased from US\$47 billion to US\$90 billion, which places the currency pair ahead of trading in other major currencies such as the Swiss franc and Canadian dollar against the US dollar. About one-third of this turnover in the Australian dollar occurred in Australia, with the rest spread across the major foreign exchange centres around the globe.

Total foreign exchange turnover in Australia (taking into account not only trading in Australian dollars but also other currencies) also recorded a substantial rise in total turnover in 2004, from US\$52 billion per day in 2001 to US\$81 billion (Table A1). On these figures the Australian market is the seventh largest in the world and the fourth largest in the Asia-Pacific region.

Turnover in the domestic market remains evenly divided between transactions involving



<sup>1</sup> Data are sourced from the preliminary results of the BIS 'Triennial central bank survey of foreign exchange and derivatives market activity in April 2004' in association with the RBA Media Release No 2004-10, 29 September 2004.

**Table A1: Geographical Distribution of Foreign Exchange Market Turnover<sup>(a)</sup>**  
Daily averages in April, billions of US Dollars

Country	1992	1995	1998	2001	2004
United Kingdom	291	464	637	504	753
United States	167	244	351	254	461
Japan	120	161	136	147	199
Singapore	74	105	139	101	125
Germany	55	76	94	88	118
Hong Kong SAR	60	90	79	67	102
Australia	29	40	47	52	81
Switzerland	66	87	82	71	79
France	33	58	72	48	64
Canada	22	30	37	42	54

(a) Adjusted for local inter-dealer double-counting  
Source: BIS

the Australian dollar and those that do not. Of note is the increased turnover in trades involving the euro. This is in line with the growing importance of the euro in other major trading centres, and in part reflects that the euro was still a relatively new currency in 2001 but it has since gained more widespread acceptance. A greater commitment to the Australian market from several large European investment banks that trade out of Sydney has also boosted euro turnover in Australia.

Spot transactions in the foreign exchange market have risen by 93 per cent in Australia since the previous survey, while turnover in both forwards and foreign exchange swaps was up by 43 per cent. Transactions between resident dealers and overseas banks were one of the driving forces behind the rise. Anecdotal evidence gathered domestically, and supported by findings of other central banks, suggests that the increased participation of hedge funds may have been a major contributor to the rise in turnover. Hedge funds were increasingly noted as taking speculative positions in foreign exchange in recent years, and were also more active than previously in hedging their currency exposures on underlying investments. ↗