

PRESS RELEASE

Triennial survey on the foreign exchange and derivatives markets: results for Belgium

In April 2007, fifty-four central banks and monetary authorities, including the National Bank of Belgium, conducted the customary Triennial Survey on Foreign Exchange and Derivatives Market Activity. As in previous years, the Bank for International Settlements (BIS)¹ coordinated the survey.

Like the four previous surveys (1995, 1998, 2001 and 2004), the April 2007 survey deals with over-the-counter (OTC) derivatives based on currencies (currency options and currency swaps) and interest rates (interest rate swaps and interest rate options), in addition to the traditional segments of the foreign exchange market (spot transactions, outright forwards and foreign exchange swaps).

The four most active Belgian financial institutions² contributed to the survey once again. This limited number of Belgian reporting dealers nevertheless does not detract from the survey's representativity, as it is estimated to cover well over 90% of the market turnover in Belgium.

Compared with the previous survey, the April 2007 results for Belgium show a strong increase in activity in foreign exchange market instruments, while the turnover of interest rate derivative contracts declined somewhat.

¹ The preliminary global results are available on the website of the BIS (www.bis.org).

² Dexia Bank Belgium, Fortis Bank, ING Belgium and KBC Bank.

1. TRADITIONAL FOREIGN EXCHANGE MARKET SEGMENTS

1.1 GENERAL OVERVIEW

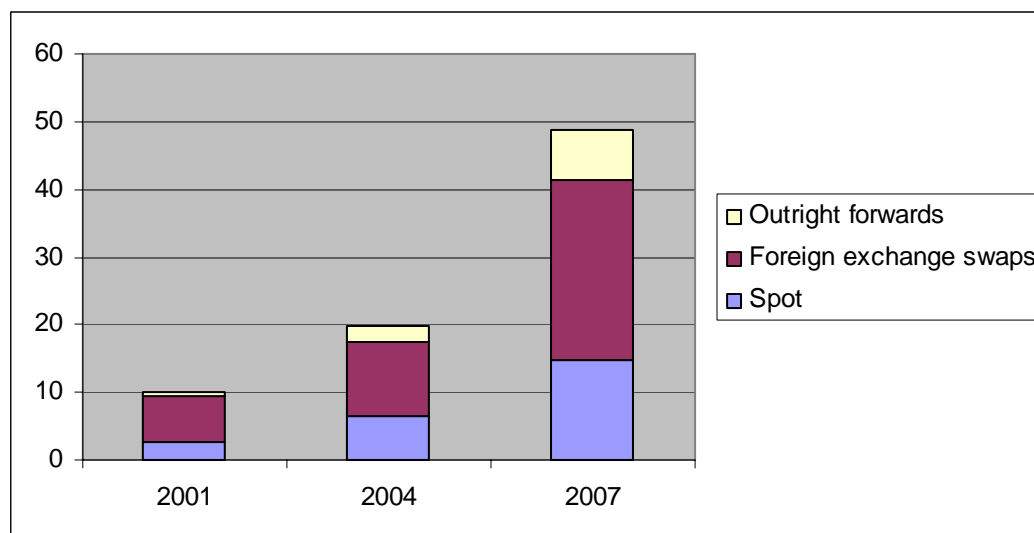


Chart 1: Average net daily turnover on the traditional foreign exchange market (in billion USD)

The average net³ daily turnover experienced a sharp rise from USD 19.7 billion in April 2004 to USD 48.7 billion in April 2007⁴ (see chart 1 and table 1 in annex). These results are in line with the worldwide upward trend in foreign exchange activity. Growth in turnover in Belgium is still among the strongest of all reporting countries, as it was in 2004. Belgium's share in the traditional foreign exchange market segments worldwide has consequently risen from 0.8% to 1.2%.

The strong global increase in traditional foreign exchange markets may be explained by evidence from market participants of a significant expansion in the activity of investor groups including hedge funds. This expansion, against a backdrop of low levels of volatility and risk aversion has been partly facilitated by substantial growth in the use of prime brokerage⁵. A trend for institutional investors with a longer-term investment horizon towards holding more internationally diversified portfolios might also have been a factor. Furthermore, a marked increase in the levels of technical trading – most notably algorithmic trading – is also likely to have boosted turnover in the spot market.

³ This is the reported gross turnover corrected by dividing the value of transactions between domestic reporting institutions by two, in order to avoid double counting.

⁴ However, when taking into account the depreciation of the USD between April 2004 and April 2007, the real increase in volume is less pronounced.

⁵ Foreign Exchange Prime Brokerage allows a client to source liquidity from a variety of executing dealers while maintaining a credit relationship, placing collateral, and settling with a single entity - the prime broker.

Wider use of electronic dealing systems, especially in the spot trading market, is increasingly evident in other market segments, particularly foreign exchange swaps.

1.2 CURRENCY DISTRIBUTION

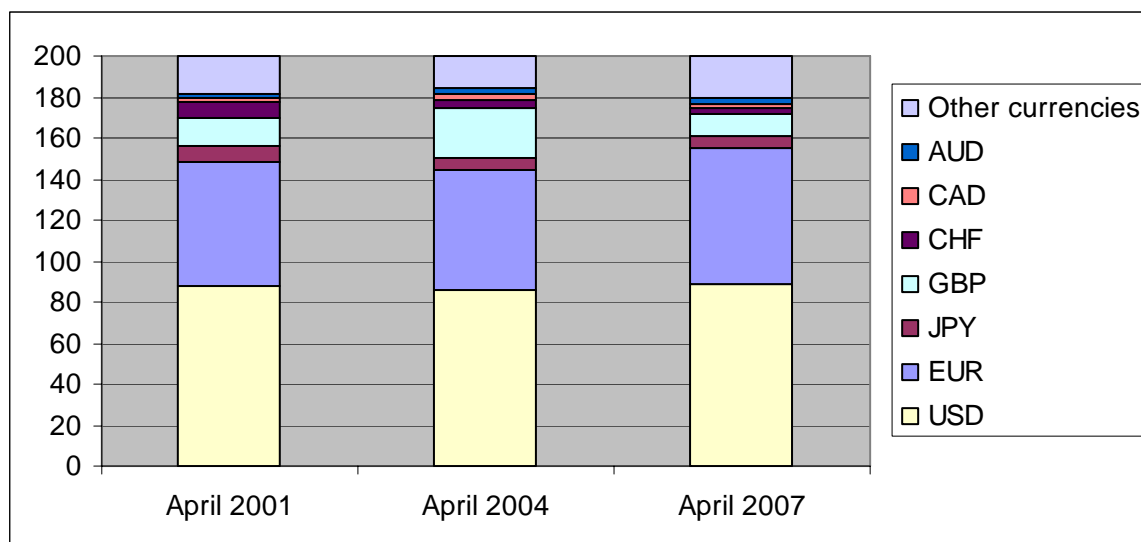


Chart 2: Currency distribution of the traditional foreign exchange market turnover
(percentage shares of the average gross daily turnover)

In contrast to the global trend, where the relative weight of the core currencies⁶ (EUR, USD, JPY and GBP) declined in April 2007, the USD has risen slightly in Belgium and the JPY remains unchanged. The importance of the EUR as a base currency rose further between 2004 and 2007 (from 58% to 66%), The GBP declined from 26% to 11%, confirming the global trend. With a share of 89% of total turnover, the USD remains the most actively traded currency (see chart 2 above and table 2 in annex).

The item listed as "other currencies" (representing a market share of 20%) comprises, in particular, transactions in Scandinavian currencies (NOK, SEK, DKK), currencies of the new EU countries (PLN, CZK, HUF), Asian currencies (SGD, HKD) and the South African rand.

With a market share of more than 60%, the EUR/USD is still by far the most widely traded currency pair. Volumes traded in that cross have grown on the foreign exchange swap and outright forward markets especially (see table 3 in annex)

⁶ Since every foreign exchange transaction involves two currencies, the sum of the percentage shares of individual currencies totals 200%.

Despite a sharp drop in its market share from 18.7% to 7.2%, Cable (GBP/USD) remains the second most active currency pair. The total turnover of USD/JPY has, compared to 2004, more than doubled on the back of carry trades and, as a consequence, has climbed to third place.

2. OTC DERIVATIVES MARKETS

2.1 FOREIGN EXCHANGE DERIVATIVES MARKETS

Compared with 2004, the daily turnover of exchange-rate-based derivatives (mostly foreign exchange options) has grown from USD 1.1 billion to 1.9 billion. Considering the strong growth in the traditional foreign exchange market, the relative weight of foreign exchange derivatives in total foreign exchange turnover has thus decreased from 5% to 4% (see table 1 in annex).

With a share of over 40%, EUR/USD is also the most active currency pair in this segment, followed by USD/JPY (7%), EUR/GBP (7%) and USD/GBP (6%).

Belgian banks' activity in currency swaps still remains modest.

2.2 INTEREST RATE DERIVATIVES



Chart 3: Net daily turnover of interest rate derivatives (in billion USD)

The net daily turnover in terms of single-currency interest rate derivatives in Belgium has, in contrast to the global trend, declined from USD 30.5 billion to 22.6 billion (see chart 3 and table 4 in annex). Despite a sharp fall in turnover, interest rate swaps are still by far the most important market segment, with a percentage share of more than 70%. Interest rate options

increased by 69% and have thus become more important than forward rate agreements, which have declined by 41% between 2004 and 2007.

Over 80% of the overall volume in interest rate swaps involves the euro. Turnover in GBP-denominated interest rate swaps has seen a spectacular fall, reducing the relative weight from 20% in 2004 to 5% in 2007. The sharp increase in interest rate options is mainly driven by a sharp rise in euro-denominated interest rate options (from 72% to 93%). In this segment, the USD (from 16% to 3%) and GBP (from 8% to 3%) have fallen sharply. The same trend can be observed in forward rate agreements, where the EUR covers about 93% of the market compared to 79% in 2004.

Table 1

Net foreign exchange market turnover according to the types of transaction - Belgian respondents (in billions of USD)							
	April 2001		April 2004		April 2007		Percentage change 2007/2004
	Daily average	Percentage share	Daily average	Percentage share	Daily average	Percentage share	
Spot transactions	2.7	26%	6.4	31%	14.8	29%	131%
Foreign exchange swaps	6.7	64%	11.1	53%	26.6	53%	140%
Outright forwards	0.7	7%	2.2	11%	7.3	14%	232%
Total traditional foreign exchange turnover (A)	10.1	96%	19.7	95%	48.7	96%	147%
Currency swaps	0.1	1%	0.1	0%	0.4	1%	300%
Currency options	0.3	3%	1.0	5%	1.5	3%	50%
Total foreign exchange derivatives (B)	0.4	4%	1.1	5%	1.9	4%	73%
Grand total (A + B)	10.5	100%	20.8	100%	50.6	100%	143%

Table 2

Currency distribution of traditional foreign exchange market turnover - Belgian respondents (percentage shares of average daily turnover)			
	April 2001	April 2004	April 2007
USD	88	86	89
EUR	60	58	66
JPY	8	6	6
GBP	14	26	11
CHF	8	4	3
CAD	2	2	2
AUD	1	4	3
Other currencies	19	14	20
All currencies *	200	200	200

* Since every foreign exchange transaction involves two currencies, the sum of the percentage shares of individual currencies totals 200%

Table 3

Traditional foreign exchange market turnover by currency pair - Belgian respondents (daily average in April, in billions of USD and percentage shares)												
	2001				2004				2007			
	Total turnover	Spot	Foreign exchange swaps	Outright forwards	Total turnover	Spot	Foreign exchange swaps	Outright forwards	Total turnover	Spot	Foreign exchange swaps	Outright forwards
		(%)	(%)	(%)		(%)	(%)	(%)		(%)	(%)	(%)
EUR/USD	4.5	26	66	8	8.5	46	35	20	28.4	35	45	20
USD/JPY	0.6	25	66	9	0.9	35	61	4	2.0	39	47	14
USD/GBP	0.9	13	83	4	3.8	12	84	4	3.5	12	85	3
USD/CHF	0.5	49	46	5	0.5	28	70	1	1.0	22	71	7
USD/CAD					0.5	14	85	1	0.2	15	76	9
USD/AUD	0.1	21	76	1	0.6	12	85	3	1.4	33	51	16
EUR/GBP	0.4	67	17	16	1.2	28	67	6	1.2	44	45	11
EUR/JPY	0.2	75	14	11	0.3	76	10	14	0.7	58	19	23
EUR/CHF	0.3	59	40	2	0.3	90	7	3	0.3	65	30	4
EUR/CAD					0.0	58	22	20	0.1	35	56	8
EUR/AUD					0.0	47	42	11	0.0	73	24	3
Other currency pairs	2.6	11	86	3	3.5	19	76	5	9.9	18	76	6
All currency pairs	10.1				20.2				48.7			

Table 4

OTC interest rate derivatives turnover (net daily average) - Belgian respondents (in billions of USD)							
	April 2001		April 2004		April 2007		Percentage change 2007/2004
	Daily average	Percentage share	Daily average	Percentage share	Daily average	Percentage share	
Forward rate agreements	1.2	8%	2.9	10%	1.7	8%	-41%
Interest rate swaps	11.9	84%	25.0	82%	16.5	73%	-34%
Interest rate options	1.1	8%	2.6	9%	4.4	19%	69%
Total	14.2	100%	30.5	100%	22.6	100%	-26%