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SPECIAL POLICY BRIEF 10

New BIS Data on Derivatives Markets

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The following is a Special Policy Brief regarding the remarkable findings contained in yesterday's release of Bank for International Settlements (BIS) figures for the global OTC derivatives markets.

Global volume tops $200 trillion

The amount of outstanding OTC derivatives contracts, measured by notional value, reached $170 trillion by mid-year 2003, up from $127.5 trillion a year before and $142 trillion six months ago. That represents a 43% annual rate of growth over the past six months and 33% over the past year. This figure, together with the $38 trillion in outstanding positions in exchange traded futures and options, brings the total size of global derivatives markets to $208 trillion (by comparison the total gross domestic product of the U.S. is about $11 trillion).

Credit risk reaches nearly $8 trillion

The growth in notional volume, combined with some substantial changes in market rates and prices, generated a large increase in the gross market value of outstanding OTC derivatives contracts. The total market value for the end of June 2003 increased to $7.9 trillion, up from $4.45 trillion a year before and $6.4 trillion six months ago. The new total represents a 78% increase over the past year and a 55% annual rate of growth over the previous six months.

If netting agreements, such as that provided by the ISDA Master Trading Agreement, are presumed to be legally binding, then the netted credit risk is reduced by 78% to $1.75 trillion. This netted sum represents a 33% increase over the past year and a 34% annual rate of increase over the exposure from six months ago.

Euro is the dominate denomination

Another interesting development concerns the tremendous growth in the use of the Euro currency for denominating interest rate and foreign exchange derivatives contracts. Although the U.S. dollar remains the preferred currency for foreign exchange spot and derivatives trading, the share of the market using the Euro is growing. Its share of the

OTC foreign exchange derivatives market has risen from 20.2% to 22.4% in the last year alone. (The figures for the foreign exchange market are adjusted to sum to 100%; otherwise, the shares will total 200% because two currencies are involved in each contract.) In the interest rate derivatives market, the Euro's share has risen in just the past year from 34% to 41%.

One reason for this development, which I have heard mentioned from developments in the international credit markets, is that more and more European countries outside the Euro currency zone are using the Euro -- instead of their own local currencies -- to issue debt. This practice might be motivated, in part, by anticipation of joining the Euro currency zone.

The report is a regular quarterly publication by the BIS. It is entitled "Regular OTC Derivatives Market Statistics" and can be found at www.bis.org/publ/otc_hy0311.htm. The report includes figures compiled by the BIS of the OTC derivatives market up through the end of June 2003. These figures update comparable information about the US market released in September by the U.S. Office of Comptroller of the Currency (see Financial Policy Forum's Special Policy Brief 8 from September 17, 2003 at www.financialpolicy.org/FPFSPB8.htm).