

# The foreign exchange and derivatives markets in Hong Kong

*by the Banking Policy Department*

The results of the latest three-yearly global survey of turnover in the markets for foreign exchange (FX) and over-the-counter (OTC) derivatives show that Hong Kong remains the sixth largest centre for FX activity and the seventh when OTC derivatives are also included. Consistent with the upward trend of global turnover of FX and OTC derivatives, Hong Kong's FX volume increased by 70%, to US\$1 74.6 billion per day, and OTC derivatives by 60%, to US\$23.6 billion per day.

## Introduction

In April this year, the HKMA conducted the triennial survey of turnover in the Hong Kong FX and OTC currency and interest rate derivatives markets as part of the global survey co-ordinated by the Bank for International Settlements (BIS). This global survey, with 54 central banks and monetary authorities (including the HKMA) participating, aims to collect comprehensive and internationally consistent information on the sizes and structures of the FX and OTC derivatives markets.

The survey collected turnover data in traditional FX (spot, outright forwards and FX swaps), OTC FX (cross-currency swaps and options) and interest-rate derivatives (forward rate agreements, interest-rate swaps and options) markets.

This article presents the main results of the Hong Kong survey, which covers 50 institutions operating in Hong Kong, comprising 46 authorized institutions (AIs) and four major securities houses (referred as "reporting dealers" in the survey). The article also compares the Hong Kong results with the global results.

## Overview of the global results

The preliminary 2007 global results published by the BIS show that activity in the traditional FX and OTC

derivatives markets continued to expand rapidly (Table 1). For the traditional FX markets, average daily net turnover rose by 71% to US\$3.2 trillion in April 2007, compared with an increase of 57% to US\$1.9 trillion from April 2001 to April 2004. The increase in 2007 was seen across all instruments but was particularly high in FX swap contracts. Turnover in OTC derivatives reached US\$2.1 trillion in April 2007, 71% higher than in April 2004. Growth was particularly strong in the FX segment (an increase of US\$151 billion or 108%). For the interest rate segment, interest rate swaps also recorded strong growth of 95% to US\$1.2 trillion.

The US dollar remained the dominant currency in the global traditional FX markets. The euro was the second most traded currency, followed by the yen and British pound. For currency pairs, US dollar/euro continued to be by far the most traded, accounting for 27% of global turnover, followed by US dollar/Japanese yen (13%). Overall, the share of emerging-market currencies has increased.

The euro remained the leading currency in the much larger interest-rate segment of the OTC derivatives market. In the reporting period, the average daily turnover of OTC interest rate derivatives increased by 64% to US\$1.7 trillion. Contracts denominated in euros accounted for 39%, compared with 32% denominated in US dollars. By contrast, the US dollar dominated the activity in OTC FX derivatives.

TABLE 1

## Global Average Daily Turnover in Foreign Exchange and Derivatives Market Activity

US\$ billion

Economy	Foreign exchange			OTC derivatives			Total		
	April 2007	April 2004	% change	April 2007	April 2004	% change	April 2007	April 2004	% change
United Kingdom	1,359	753	80%	1,081	643	68%	2,440	1,396	75%
United States	664	461	44%	607	355	71%	1,271	816	56%
Switzerland	242	79	206%	73	18	306%	315	97	225%
Japan	238	199	20%	88	39	126%	326	238	37%
Singapore	231	125	85%	69	17	306%	300	142	111%
Hong Kong	175	102	72%	24	15	60%	199	117	70%
Australia	170	81	110%	29	18	61%	199	99	101%
France	120	64	88%	183	154	19%	303	218	39%
Germany	99	118	-16%	93	46	102%	192	164	17%
Denmark	86	41	110%	12	12	0%	98	53	85%
Canada	60	54	11%	25	17	47%	85	71	20%
Russia (3)	50	30	67%	0	-	n.a.	50	30	67%
Belgium	48	20	140%	23	32	-28%	71	52	37%
Luxembourg	43	14	207%	5	7	-29%	48	21	129%
Sweden	42	31	35%	14	8	75%	56	39	44%
Italy	36	20	80%	32	41	-22%	68	61	11%
India	34	7	386%	8	1	700%	42	8	425%
Korea	33	20	65%	7	2	250%	40	22	82%
Norway	32	14	129%	7	5	40%	39	19	105%
Netherlands	24	49	-51%	28	22	27%	52	71	-27%
Others	203	126	61%	136	56	143%	339	182	86%
<b>Total "net-gross" turnover (1)</b>	<b>3,989</b>	<b>2,408</b>	<b>66%</b>	<b>2,544</b>	<b>1,508</b>	<b>69%</b>	<b>6,533</b>	<b>3,916</b>	<b>67%</b>
<b>Estimated global turnover (2)</b>	<b>3,210</b>	<b>1,880</b>	<b>71%</b>	<b>2,090</b>	<b>1,220</b>	<b>71%</b>	<b>5,300</b>	<b>3,100</b>	<b>71%</b>

Notes:

(1) Data are adjusted for local inter-dealer double counting ("net-gross" basis).

(2) Data are adjusted for cross-border double counting ("net-net" basis). Estimated global turnover for foreign exchange transactions also includes estimates for less than full coverage within individual reporting economies and for active non-reporting economies.

(3) Russia did not report the figures of OTC derivatives in the 2004 survey.

n.a. refers to not applicable.

Figures may not add up due to rounding.

Source: The Bank for International Settlements

By geographical distribution of market turnover, Hong Kong ranked sixth in the FX markets, with its global market share slightly increasing from 4.2% in 2004 to 4.4% in 2007. It also accounted for around 1% of the reported global market turnover for OTC derivatives. Taking the global turnover for traditional FX and OTC derivatives markets together, Hong Kong is the seventh largest centre in the world.

The preliminary global results and the detailed analysis of the survey results are available at the BIS website (<http://www.bis.org>).

## Hong Kong results

### Overview

The Hong Kong results were broadly in line with the global trends. Average daily net turnover in the Hong Kong FX and OTC derivatives markets was US\$198.2 billion in April 2007, 70% higher than in 2004. Much of the increase was attributable to activity in the traditional FX market.

With a global market share of 4.4%, average net daily turnover (net of double counting of trades between local reporting dealers) of the FX market in

Hong Kong was US\$174.6 billion in April 2007, up 70.9%, from US\$102.2 billion per day, in April 2004. FX swaps remained the principle type of FX transactions, with turnover increasing by 99%, to US\$122 billion per day, in April 2007, accounting for around 70% of total FX turnover.

Following the 2.6 times growth reported in 2004, average daily net turnover for OTC derivatives rose by a further 58% to US\$23.6 billion in April 2007. The major part of this growth came from interest rate swaps, which remained the most common type of transactions in the Hong Kong OTC derivatives market. Interest rate swaps increased by 67%, to US\$16.0 billion per day, in April 2007, accounting for 68% of total OTC derivatives turnover.

One particular observation from the FX part of the survey was the significant increase in US dollar/Hong Kong dollar trading activities. Net turnover for FX contracts involving US dollar/Hong Kong dollar was US\$72.5 billion per day in April 2007, US\$46.4 billion or 178% higher than in April 2004. This growth may reflect the increased investment activity in Hong Kong, particularly in equities, which has given rise to increased FX transactions relating to the Hong Kong dollar and the increased use of FX swaps to manage the associated funding activities.

Overall, the significant growth in the market turnover in Hong Kong is likely to be attributable to the following factors:

- Depreciation of the US dollar has possibly inflated the measured growth of FX and OTC derivatives turnover.
- A decline in FX volatility over the recent years may have increased the risk appetite.
- Increased interest in investing in foreign currencies and overseas financial markets to earn higher yields.
- Increased trading activities by banks, mutual funds, hedge funds, asset managers and other professional participants for position-taking and

risk management. For example, ample liquidity in the banking system and the buoyant stock market have increased the treasury activities of banks in Hong Kong. The liquidity has in part been channelled through the purchase of foreign-currency assets, which increased the need to hedge currency risk. The growing presence of funds established in Hong Kong might also underscore greater market activity.

- As global economic ties with China have increased, more China-related activities through the Hong Kong FX market have also stimulated growth.
- The growth of wealth-management business in Hong Kong further encouraged the use of FX and derivatives.

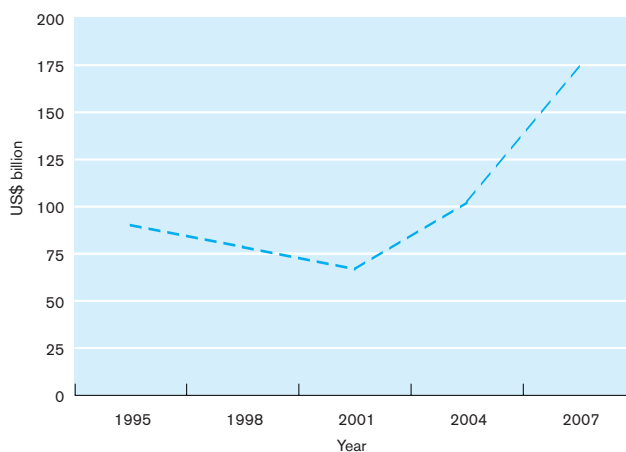
## Traditional FX transactions

### Total Turnover

Average daily net turnover during April 2007 in the Hong Kong FX market was US\$174.6 billion, 70.9% higher than the US\$102.2 billion recorded in April 2004 (Chart 1). The growth in turnover is consistent with the global results published by the BIS.

CHART 1

### Average Daily Net Turnover in the Hong Kong Foreign Exchange Market



Note: Average daily net turnover has been adjusted for local inter-dealer double reporting.

TABLE 2

## Average Daily Net Turnover of Foreign Exchange by Transaction Type

US\$ billion

	Turnover in Hong Kong			Global turnover		
	April 2007	April 2004	% change	April 2007	April 2004	% change
<b>Spot</b>	<b>38</b>	<b>36</b>	<b>6.4%</b>	<b>1,005</b>	<b>621</b>	<b>61.8%</b>
<b>Forwards</b>	<b>137</b>	<b>67</b>	<b>105.5%</b>	<b>2,076</b>	<b>1,152</b>	<b>80.2%</b>
Outright forwards	15	5	174.3%	362	208	74.0%
Foreign exchange swaps	122	61	99.5%	1,714	944	81.6%
<b>Estimated reporting gaps</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>129</b>	<b>107</b>	<b>20.6%</b>
<b>Total foreign exchange transactions</b>	<b>175</b>	<b>102</b>	<b>70.9%</b>	<b>3,210</b>	<b>1,880</b>	<b>70.7%</b>

Notes:

Average daily net turnover has been adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.

*Instruments*

Turnover increased across all transaction types (Table 2). FX swaps almost doubled from US\$61 billion per day in April 2004 to US\$122 billion. Swap contracts remained the most common transaction type, accounting for 70% of total FX turnover, up from 60% in April 2004. Spot deals slightly increased by 6%, to US\$38 billion per day, comprising 22% of total FX turnover (35% in April 2004). Outright forward business tripled between April 2004 and April 2007, to US\$15 billion.

*Maturity of forwards and swaps*

The maturity profile of outright forwards and swaps remained the same as in April 2004. The percentage of forward and swap transactions that mature in less than seven days stood at 70% in April 2007. By contrast, deals with a maturity of over one year continued to represent a small portion of total turnover, at around 2% (Table 3). As swap deals were mostly linked to short-dated money market transactions and were often used for hedging against currency risk and for managing liquidity, a relatively large proportion of the swap deals (74%) were in the less-than-seven-days maturity band. In the case of outright forwards, only 38% of transactions fell into the same maturity band.

TABLE 3

## Average Daily Net Turnover of Forward Transactions by Maturity Breakdown

US\$ billion

	Average daily net turnover			% share	
	April 2007	April 2004	% change	April 2007	April 2004
<b>Outright forwards</b>	<b>14.7</b>	<b>5.4</b>	<b>174.3%</b>	<b>100%</b>	<b>100%</b>
Up to and for 7 days	5.6	2.1	167.4%	38.0%	38.9%
Over 7 days and up to and for 1 year	8.5	3.1	171.9%	57.6%	58.1%
Over 1 year	0.7	0.2	309.7%	4.5%	3.0%
<b>Foreign exchange swaps</b>	<b>122.0</b>	<b>61.1</b>	<b>99.5%</b>	<b>100%</b>	<b>100%</b>
Up to and for 7 days	89.9	44.6	101.7%	73.7%	72.9%
Over 7 days and up to and for 1 year	30.5	15.1	102.5%	25.0%	24.6%
Over 1 year	1.6	1.5	6.8%	1.3%	2.5%
<b>Total forward transactions</b>	<b>136.7</b>	<b>66.5</b>	<b>105.5%</b>	<b>100%</b>	<b>100%</b>
Up to and for 7 days	95.5	46.7	104.6%	69.8%	70.1%
Over 7 days and up to and for 1 year	39.0	18.2	114.4%	28.5%	27.3%
Over 1 year	2.3	1.7	35.6%	1.7%	2.5%

Notes:

Average daily net turnover is turnover adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.

## Currency composition

The US dollar continued to be the most heavily traded currency in the Hong Kong FX market, being used on one side of 96.0%<sup>1</sup> of all transactions in April 2007. Euro-denominated contracts shrank, with 12.8% of the total involving euro on one side of the transaction. In contrast, trading in the Hong Kong dollar rose strongly, being on one side of 42.0% of all transactions.

The development of renminbi banking business in Hong Kong since its launch in early 2004 led to a sharp increase of renminbi activities. Net FX transactions in relation to the renminbi increased by almost six times in three years, to US\$3.0 billion per day, in April 2007. The increase was mainly attributable to the noticeable growth in outright forward transactions, which may have been driven by an anticipation of an appreciation in the currency and the increasing economic links between China and

Hong Kong. Outright forward transactions related to the renminbi rose by 6.8 times, to US\$2.6 billion per day, in April 2007, representing 86.7% of total renminbi-related FX turnover. Net turnover of renminbi spot transactions amounted to US\$0.3 billion per day in April 2007, up 1.7 times from 2004.

The most heavily traded currency pair was Hong Kong dollar/US dollar, which rose 1.8 times to account for 41.5% of total FX turnover in April 2007, up from 25.6% in 2004. The growth might be mainly related to increased equity-related investment activities in Hong Kong, which gave rise to increased FX transactions relating to the Hong Kong dollar and also the increased use of FX swaps to manage the associated funding activities. There was also an increased investment interest in higher-yield foreign currencies and overseas financial markets. Despite a decline in its share to 11.6% of average net daily FX turnover from 22.3% in 2004, the currency pair of US dollar/euro maintained its second place. Table 4

TABLE 4

### Average Daily Net Turnover of Foreign Exchange by Currency Pair

US\$ billion

	Average daily net turnover				
	April 2007	% share	April 2004	% share	% change
<b>Hong Kong dollar against:</b>					
US dollar	72.5	41.5%	26.1	25.6%	177.5%
Others	0.9	0.5%	1.1	1.1%	-19.6%
<b>Subtotal</b>	<b>73.4</b>	<b>42.0%</b>	<b>27.2</b>	<b>26.7%</b>	<b>169.5%</b>
<b>US dollar against:</b>					
Euro	20.2	11.6%	22.8	22.3%	-11.4%
Japanese yen	16.4	9.4%	19.2	18.8%	-14.5%
Swiss franc	2.8	1.6%	2.0	1.9%	38.8%
British pound	12.6	7.2%	10.5	10.3%	19.9%
Australian dollar	14.0	8.0%	6.3	6.2%	121.0%
Canadian dollar	2.1	1.2%	1.4	1.4%	46.1%
Malaysia ringgit	0.6	0.3%	0.01	0.01%	4972.1%
Others (excluding Hong Kong dollar)	26.6	15.3%	7.5	7.4%	252.9%
<b>Subtotal</b>	<b>95.2</b>	<b>54.5%</b>	<b>69.8</b>	<b>68.4%</b>	<b>36.4%</b>
<b>Cross currencies (excluding Hong Kong dollar and US dollar):</b>					
Japanese yen / Euro	1.8	1.0%	3.2	3.1%	-44.0%
British pound / Euro	0.4	0.2%	0.7	0.7%	-46.4%
Others	3.8	2.2%	1.1	1.1%	233.5%
<b>Subtotal</b>	<b>6.0</b>	<b>3.4%</b>	<b>5.1</b>	<b>5.0%</b>	<b>17.4%</b>
<b>All currency pairs</b>	<b>174.6</b>	<b>100%</b>	<b>102.2</b>	<b>100%</b>	<b>70.9%</b>

Notes:

Average daily net turnover has been adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.

<sup>1</sup> Since two currencies are involved in each transaction, the sum of the percentage shares of individual currencies on one side totals 200% instead of 100%.

TABLE 5

## Average Daily Net Turnover of Foreign Exchange by Counterparty

US\$ billion

	Average daily net turnover			% share	
	April 2007	April 2004	% change	April 2007	April 2004
<b>With reporting dealers</b>	<b>137.1</b>	<b>81.6</b>	<b>68.0%</b>	<b>78.5%</b>	<b>79.9%</b>
Local	17.6	11.0	60.4%	10.1%	10.7%
Cross-border	119.5	70.6	69.2%	68.4%	69.1%
<b>With "other" financial institutions</b>	<b>28.8</b>	<b>14.2</b>	<b>102.2%</b>	<b>16.5%</b>	<b>13.9%</b>
Local	5.7	2.8	103.4%	3.3%	2.7%
Cross-border	23.1	11.4	102.0%	13.2%	11.2%
<b>With non-financial customers</b>	<b>8.7</b>	<b>6.3</b>	<b>37.8%</b>	<b>5.0%</b>	<b>6.2%</b>
Local	4.4	3.7	20.7%	2.5%	3.6%
Cross-border	4.3	2.7	61.5%	2.5%	2.6%
<b>Total foreign exchange turnover</b>	<b>174.6</b>	<b>102.2</b>	<b>70.9%</b>	<b>100%</b>	<b>100%</b>

Notes:

Average daily net turnover is turnover adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.

Reporting dealers are AIs and major securities houses participating in the survey.

"Other" financial institutions are financial institutions other than reporting dealers.

sets out a detailed analysis of turnover of FX contracts in Hong Kong by currency pairs.

### Counterparties

Table 5 shows the breakdown of FX turnover by counterparty. Around 80% of FX turnover was among reporting dealers, similar to the proportion in the previous survey. Business with "other financial institutions" and "non-financial customers" accounted for 16.5% and 5.0% respectively. This clearly indicates that authorized institutions and other financial institutions dominate the Hong Kong FX market. On a global basis, the market share of FX turnover is distributed more evenly, with reporting dealers and other financial institutions each accounting for around 40%.

The value of FX turnover with all types of counterparties grew between 2004 and 2007, with trades among reporting dealers recording the largest increase (an increase of US\$55.5 billion) (Table 5). Reflecting the cross-border nature of the FX transactions, an overwhelming 84.1% of the trades were conducted with overseas counterparties.

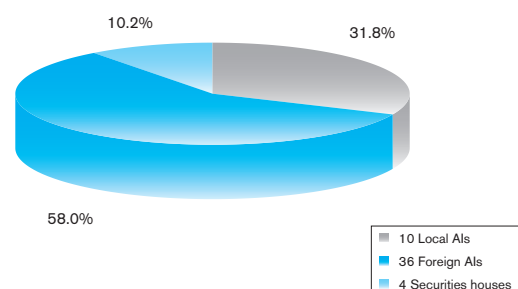
Concentration in the Hong Kong FX market decreased slightly from 2004. The combined market

share of the top ten reporting dealers with the largest gross FX turnover reduced to 71.0% from 74.6% in 2004.

The FX market continued to be dominated by overseas-incorporated AIs although their contribution dropped from 62.0% in 2004 to 58.0% as a result of localisation of foreign AIs and increased activity by locally incorporated AIs (Chart 2). The share accounted for by local AIs expanded sharply from 24.4% in 2004 to 31.8%. Securities houses took up the remaining 10.2%. The share of total gross FX transactions conducted through brokers (including

CHART 2

## Relative Shares of Average Daily Gross Turnover of Foreign Exchange by Reporting Dealer (April 2007)



Note:

Average daily gross turnover is turnover not adjusted for local inter-dealer double reporting.



electronic brokers) rose from 43.9% in 2004 to 46.4%, while the remainder were conducted bilaterally between counterparties.

## OTC derivatives

### Total turnover

In line with the global upward trend, average daily turnover of OTC derivatives in Hong Kong increased by US\$8.7 billion or 58% from the 2004 survey. Turnover during April 2007 averaged US\$23.6 billion per day, compared with US\$14.9 billion in April 2004. Within this total, turnover in interest rate instruments increased from US\$11.2 billion to US\$17.3 billion (an increase of 54%) per day, and in currency instruments from US\$3.7 billion to US\$6.3 billion (an increase of 71%) (Table 6).

### Instruments

Interest rate derivatives accounted for 73% of OTC derivatives turnover. Interest rate swaps, with their turnover increasing by 67% from the 2004 survey to US\$16 billion, remained the most highly traded product. OTC currency derivatives, consisting of currency swaps and currency options, accounted for 27% of OTC derivatives turnover. The increase in turnover of FX derivatives was mainly driven by strong growth in currency options, which more than doubled from the 2004 survey.

### Currency composition

As in the traditional FX market, the US dollar remained the most traded currency in the OTC currency derivatives market. Around 73% of turnover involved the US dollar, down from 84% in April 2004. In contrast to a decline of 38% in 2004, the turnover of FX derivatives denominated in the Hong Kong dollar

TABLE 6

#### Average Daily Net Turnover of OTC Derivatives by Transaction Type

US\$ billion

	Average daily net turnover			% share	
	April 2007	April 2004	% change	April 2007	April 2004
<b>Foreign exchange derivatives</b>	<b>6.3</b>	<b>3.7</b>	<b>71.1%</b>	<b>26.8%</b>	<b>24.8%</b>
Currency swaps	0.6	0.9	-30.8%	2.6%	6.1%
Currency options	5.7	2.8	104.0%	24.2%	18.7%
<b>Interest rate derivatives</b>	<b>17.3</b>	<b>11.2</b>	<b>54.4%</b>	<b>73.1%</b>	<b>74.9%</b>
Forward rate agreements	0.7	0.3	126.8%	3.1%	2.1%
Interest rate swaps	16.0	9.6	66.7%	67.7%	64.3%
Interest rate options	0.6	1.3	-56.4%	2.3%	8.5%
<b>"Other" OTC derivatives products</b>	<b>0.02</b>	<b>0.05</b>	<b>-59.5%</b>	<b>0.1%</b>	<b>0.3%</b>
Foreign exchange derivatives	–	0.01	-100.0%	0.0%	0.1%
Interest rate derivatives	0.02	0.04	-50.6%	0.1%	0.3%
<b>Total OTC derivatives products</b>	<b>23.6</b>	<b>14.9</b>	<b>58.2%</b>	<b>100%</b>	<b>100%</b>

Notes:

Average daily net turnover has been adjusted for local inter-dealer double reporting except for "other" OTC derivatives products which are residual OTC derivatives not categorised in the survey and are recorded on a gross basis, i.e. not adjusted for inter-dealer double counting.

Figures may not add up to total due to rounding.

TABLE 7

## Average Daily Net Turnover of Foreign Exchange Derivatives by Currency Pair

US\$ billion

	Average daily net turnover				
	April 2007	% share	April 2004	% share	% change
<b>Hong Kong dollar against:</b>					
US dollar	0.68	10.7%	0.27	7.2%	155.2%
Others	0.07	1.2%	0.10	2.7%	-24.5%
<b>Subtotal</b>	<b>0.75</b>	<b>11.9%</b>	<b>0.37</b>	<b>9.9%</b>	<b>103.6%</b>
<b>US dollar against:</b>					
Euro	0.64	10.1%	1.07	29.0%	-40.4%
Japanese yen	0.43	6.8%	0.47	12.7%	-8.5%
Swiss franc	0.17	2.7%	0.02	0.5%	781.4%
British pound	0.95	15.0%	0.20	5.3%	382.3%
Australian dollar	0.62	9.8%	0.64	17.2%	-3.0%
Canadian dollar	0.08	1.3%	0.18	4.7%	-54.4%
Malaysia ringgit	0.0003	0.004%	0.001	0.03%	-71.9%
Others (excluding Hong Kong dollar)	1.07	16.9%	0.25	6.9%	320.4%
<b>Subtotal</b>	<b>3.96</b>	<b>62.5%</b>	<b>2.83</b>	<b>76.4%</b>	<b>40.0%</b>
<b>Cross currencies (excluding Hong Kong dollar and US dollar):</b>					
Japanese yen / Euro	0.20	3.1%	0.39	10.4%	-48.6%
British pound / Euro	0.02	0.3%	0.03	0.8%	-37.5%
Others	1.40	22.2%	0.09	2.5%	1412.2%
<b>Subtotal</b>	<b>1.62</b>	<b>25.6%</b>	<b>0.51</b>	<b>13.7%</b>	<b>219.0%</b>
<b>All currency pairs</b>	<b>6.33</b>	<b>100%</b>	<b>3.70</b>	<b>100.0%</b>	<b>71.1%</b>

Notes:

Average daily net turnover has been adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.

against the US dollar increased by more than 1.5 times in 2007 (Table 7). The currency pair's share of total net turnover increased from 7.2% to 10.7%, ranking second after the US dollar against the British pound (15.0%). The proportion of turnover denominated in Australian dollar fell from 17% to 10%.

With regard to single currency interest rate derivatives, contracts denominated in Hong Kong

dollars grew by 2.3 times to US\$10.1 billion in April 2007, surpassing those denominated in US dollars to occupy the largest share of the net turnover, up from 27.7% in 2004 to 58.7% (Table 8).

### Counterparties

In the OTC derivatives market, transactions among reporting dealers made up 71.5% of the turnover in

TABLE 8

## Average Daily Net Turnover of Single-currency Interest Rate Derivatives

US\$ billion

	Average daily net turnover				
	April 2007	% share	April 2004	% share	% change
Hong Kong dollar	10.1	58.7%	3.1	27.7%	227.5%
US dollar	2.7	15.8%	3.7	32.8%	-25.6%
Euro	0.1	0.7%	0.5	4.4%	-75.8%
Japanese yen	0.7	4.0%	3.5	31.6%	-80.4%
Others	3.6	20.8%	0.4	3.4%	834.7%
<b>All currencies</b>	<b>17.3</b>	<b>100%</b>	<b>11.2</b>	<b>100%</b>	<b>54.4%</b>

Notes:

Average daily net turnover is turnover adjusted for local inter-dealer double reporting.

Figures may not add up to total due to rounding.



TABLE 9

## Average Daily Net Turnover of OTC Derivatives by Counterparty

US\$ billion

	Average daily net turnover			% share	
	April 2007	April 2004	% change	April 2007	April 2004
<i>OTC derivatives</i>					
<b>With reporting dealers</b>	<b>16.9</b>	<b>7.7</b>	<b>120.5%</b>	<b>71.5%</b>	<b>51.3%</b>
Local	2.5	0.7	274.0%	10.7%	4.5%
Cross-border	14.4	7.0	105.6%	60.8%	46.8%
<b>With "other" financial institutions</b>	<b>3.6</b>	<b>5.8</b>	<b>-38.6%</b>	<b>15.0%</b>	<b>38.7%</b>
Local	0.3	0.7	-54.9%	1.4%	4.8%
Cross-border	3.2	5.1	-36.2%	13.7%	33.9%
<b>With non-financial customers</b>	<b>3.2</b>	<b>1.4</b>	<b>119.6%</b>	<b>13.4%</b>	<b>9.6%</b>
Local	1.4	0.4	271.8%	6.0%	2.6%
Cross-border	1.7	1.1	64.5%	7.4%	7.1%
<i>"Other" OTC derivatives products</i>	0.02	0.05	-59.5%	0.1%	0.3%
<b>Total OTC derivatives turnover</b>	<b>23.6</b>	<b>14.9</b>	<b>58.2%</b>	<b>100%</b>	<b>100%</b>

## Notes:

Average daily net turnover is turnover adjusted for local inter-dealer double reporting.

Reporting dealers are AIs and major securities houses participating in the survey.

"Other" financial institutions are financial institutions other than reporting dealers.

"Other" OTC derivatives products are residual OTC derivatives products not categorised in the survey and are recorded on a gross basis, i.e. not adjusted for inter-dealer double counting.

Figures may not add up to total due to rounding.

April 2007, rising from 51.3% in 2004 (Table 9). In contrast, the proportion of turnover with "other financial institutions" fell to 15% in April 2007, down from 39% in April 2004. Business with non-financial customers increased, rising from 10% in 2004 to 13% in 2007. Cross-border trades comprised around 82% of the OTC FX and interest rate derivatives, of which around three quarters were transacted with overseas reporting dealers.

Concentration in the OTC derivatives market was the same as in April 2004. In April 2007, the ten largest reporting dealers accounted for 81% of gross OTC derivatives turnover. Overseas-incorporated AIs remained the major players in the OTC derivatives market, their contribution increasing significantly from 47.3% in 2004 to 63.5% (Chart 3). Losing their market share to foreign AIs, the share of securities houses contracted from 41% in April 2004 to 17% in April 2007.

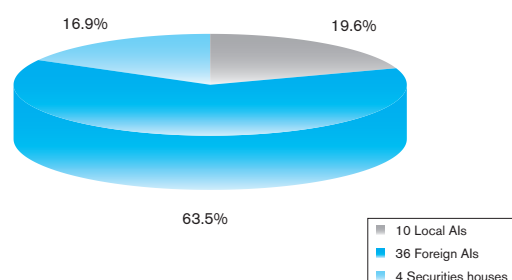
## Conclusion

Consistent with developments in global markets, the survey shows that the volume of FX and OTC derivatives activity in Hong Kong continued to grow

strongly despite the intense competition in the region. It also confirms that Hong Kong continues to build on its position as one of the world's major centres for FX and OTC derivatives. One particular contributing factor to the robust growth in Hong Kong's FX market was the active trading in the Hong Kong dollar, due to the continuing sizeable inflow of capital to Mainland China through Hong Kong. This highlights Hong Kong's important position as a gateway for investment on the Mainland.

CHART 3

## Relative Shares of Average Daily Gross Turnover of OTC Derivatives by Reporting Dealer (April 2007)



## Note:

Average daily gross turnover is turnover not adjusted for local inter-dealer double reporting.