

BIS FX Survey: No sign of de-dollarization just yet

The BIS has just released its triennial survey of FX turnover. The stand-outs include: a) The dollar has consolidated its position as the world's most liquid currency, b) the march of the renminbi has slowed c) emerging market FX pairs have seen some of the biggest increases in volumes, while GBP turnover has held up despite Brexit



Source: Shutterstock

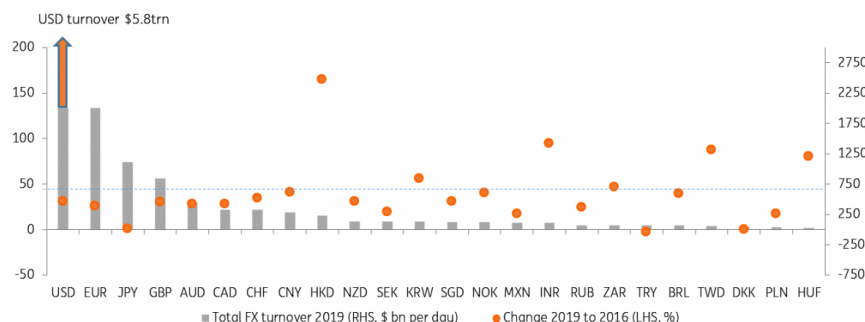
No signs of de-dollarization at a global level

The [latest triennial BIS FX turnover survey](#) was released last night and covers FX trading activity from April this year. There are no signs as yet that de-dollarization is taking hold on a global level. In other words, the dollar remains central to the world's exchange of trade and portfolio flows. The dollar retains its clear leadership status, still one side of 88% of all FX trades. Its nearest challenger remains the euro at 32%.

Despite fears that some of Washington's foreign policy could force trading partners away from using the dollar – especially the long reach of the US Treasury when it comes to sanctions – there are no signs that the dollar is losing its pre-eminent status on a global level. This bestows some

benefits of seigniorage – or potentially lower borrowing costs as investors pay up for the privilege of investing in an asset backed by a liquid currency. [Though former Federal Reserve Chairman Ben Bernanke does a good job](#) in a blog post of dismissing what seigniorage is really worth.

Dollar retains stand-out role as most liquid currency



Source: BIS, ING

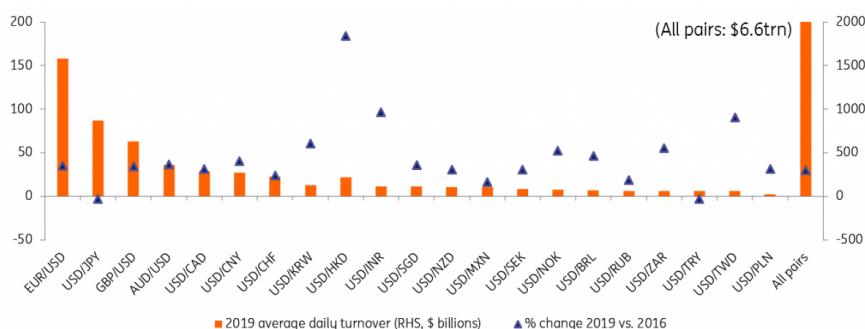
The march of the renminbi slows

Having joined the IMF's Special Drawing Right (SDR) in 2016, Chinese authorities might have hoped the renminbi would continue to climb up the rankings of the world's most traded currencies. CNY trading volumes have increased 40% since 2016, but the growth has not outstripped the aggregate trading volume increase sufficiently and the renminbi remains the eighth most liquid currency.

The difficulty in managing changes to the People's Bank of China fixing adjustment in summer 2016 and the authorities' reluctance to completely open the valves on the capital account (largely to prevent a disorderly renminbi decline) will no doubt have played a role here. Yet the PBOC's use of CNY swap lines to encourage trade in renminbi (over 30 countries now have CNY swap agreements with the PBOC) and China's increasing inclusion into benchmark equity and bond indices suggest that the renminbi will play an ever-large role in global FX markets.

That said, it is notable that the single biggest increase in trading volumes over the last three years has been the Hong Kong dollar (volumes up 165%) suggesting that renminbi volumes will increase when capital account restrictions are loosened further.

Big pick-up in USD/Asia FX pairs



Source: BIS, ING

Key changes in trading volumes

The other key story is the relative change in trading volumes. Only two dollar/FX pairs have seen a decline in FX turnover since 2016 – these were USD/JPY and USD/TRY. The lack of volatility probably explains the former and domestic challenges through 2018/19 the latter. Despite the overall decline in the Japanese yen, the survey did pick out the big increase in JPY/TRY, JPY/BRL and JPY/ZAR cross trading – suggesting that Japanese retail margin trading of high yield FX is alive and well and partly explaining some of the big moves in the Turkish lira and South African rand seen in early Asian trading hours.

Currencies enjoying an above average (30%+) increase in turnover were the Indian rupee (INR), Taiwan dollar (TWD), Hungarian forint (HUF), Korean won (KRW), and South African rand (ZAR). Turnover in EUR/HUF doubled between 2016 and 2019 while EUR/PLN turnover was flat. We also note that GBP trading volumes increased largely in line with peers – suggesting no damage to liquidity from Brexit, whilst EUR/CHF turnover bounced back from the Swiss National Bank's floor exit debacle in 2015.

One final point, in terms of FX product lines, outright forwards (+43%) saw the biggest increase led by strong activity in KRW, INR and BRL non-deliverable forwards.

There are no signs of de-dollarization just yet, but the growth in HKD trading volumes suggests the renminbi's march to reserve status has just slowed rather than stalled.

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.