

Report about Over-The-Counter Margin FX Cover Trades

Introduction:

Based on the results of a survey co-conducted by Tokyo FX Committee in April 2013, subject to Over-The-Counter (OTC) Margin FX trades and the monitoring hearing*¹ conducted in the same month, The Financial Futures Association of Japan (FFAJ) conducted a factual survey of cover trades in OTC Margin FX trading Markets.

【Summary】

The amount of OTC Margin FX trading has increased since the end of November 2012, and in April 2013, the month when this survey was conducted, the total volume of OTC Margin FX trading marked JPY 442.1 trillion*². This volume was approximately 3.5 times larger than JPY 127.9 trillion, the volume which was recorded in April 2012. According to this increase of the volume of OTC Margin FX trading, the cover amount in April 2013 also greatly increased to JPY 202.5 trillion from JPY 70.0 trillion in April 2012.

From the perspective of the category of cover trade destination, the volume of cover trades transacted among non-financial institutions in Japan increased to JPY 92.2 trillion from JPY 32.4 trillion in the same month a year ago.

Compared with cover trades in the domestic market and those in overseas markets, the volume in the domestic market marked JPY 146.6 trillion and the one in overseas markets marked JPY 55.9 trillion in April 2013; both figures increased from those in April 2012. From the perspective of the percentage of total cover trades, however, about 75% of total cover trades occurred in the domestic market and the other 25% of total cover trades were done in overseas markets; this trend of cover percentage is almost the same as in April 2012.

Taking into account the cases in which cover trades were done by foreign companies, the volume of cover trades in domestic companies marked JPY 96.2 trillion and the one in foreign companies marked JPY 106.3 trillion. Although the volume itself in domestic companies was smaller than that of foreign companies, the increased volume compared with April 2012 is larger than the volume in foreign companies.

I. Turnover and Cover amount

In April 2013, the turnover of OTC Margin FX trades marked JPY 442.1 trillion, approximately 3.5 times volume of the turnover of April 2012, which was JPY 127.9 trillion. Alongside this increase in turnover, the cover amount also marked JPY 202.5 trillion, increasing 289% from JPY 70.0 trillion, the figure for April 2012.

Cover percentage in April 2013 (Cover amount ÷ Monthly Turnover (JPY 442.1 trillion) × 100) marked 45.8%, decreasing significantly from 54.7% in April 2012. In April 2011, cover trades marked 31.7% and the trend of increasing cover percentage continued from then to April 2012, however, this trend reversed greatly in April 2013.

Table 1. OTC Margin FX trades Monthly Turnover and Cover Trades Amount (Unit: trillion of JPY)

	Monthly Turnover ※1	Cover Trades ※2	Cover Percentage
April in 2012	127.9	70.0	54.73%
April in 2013	442.1	202.5	45.81%

※ 1 The above figure of turnover does not match the figure disclosed on Monthly FX report issued by FFAJ due to different calculation method.

※ 2 Cover Percentage is the figure that Cover amount is divided by Total Turnover.

II. Trade Size Comparison between Tokyo FX Market and OTC Margin FX Market

Compared with Trade Size in April 2013 between Tokyo FX Market*³ and OTC Margin FX Market, USD 38.8 billion of the average daily turnover (customer transaction amount) in April 2013 was traded by non - financial institutions. Our survey confirmed that USD 26.2 billion, approximately 65 % of the total trading volume, was raised from cover trades from OTC Margin FX trades. Moreover, while the average daily turnover of the Tokyo FX Market marked USD 149.8 billion for all currency pairs (Spot), that of OTC Margin FX market marked USD 215.2 billion, greatly increased by 285% from the same month a year ago. Through our survey, we confirmed that in April 2013, the daily turnover of OTC FX Margin market grew up more than the daily turnover of the Tokyo FX Market, the former turnover being approximately 1.4 times volume as the latter.

Table 2. Tokyo FX Market Turnover Survey (Unit: billion of USD)

April 2013 (Average Daily Turnover)			April 2012 (Average Daily Turnover)	
149.8			100.0	
Financial Institution		Non-Financial Institution	Financial Institution	Non-Financial Institution
111.0		38.8	80.0	19.9
Interbank Trades	Customer Trades			
101.6	9.4			

※ Table2. was made from the data of “The survey of the trading volume of Foreign Exchange conducted by Tokyo FX Committee” (32 institutions participants).

※ According to “The survey of the trading volume of Foreign Exchange conducted by Tokyo FX Committee”, the financial institutions were defined as general financial institutions such as Central Counterparty, local banks, 2nd tier local banks, Credit associations, Workers Credit unions, Cooperatives, Labor banks and unions, Agriculture, Forestry and Fisheries credit foundations and unions, Mutual funds, Pension funds, Hedge funds, MMF, Lease companies, Insurance companies, corporate subsidiary financial institutions, Yucho bank, Government financial institutions (Japan Finance Corporation (JFC), Development Bank of Japan (DBJ) etc.) and Bank of Japan (BOJ). This report also adopts the same definition.

※ In the text, one daily in April in 2013 was defined as a weekday from Monday to Friday (not including national holidays in Japan). There were 21 weekdays in April 2013, thus, each figure equals to total figure divided by 21. All of the average daily figures were calculated by the same method.

※ “The survey of the trading volume of Foreign Exchange conducted by Tokyo FX Committee” calculated the detailed figures among financial institution trades in April 2013, therefore, we recorded the same figures in Table 2. as reference data.

Table 3. Turnover of OTC Margin FX Trades reported by FFAJ (Unit: billion of USD)

April 2012 (Average Daily Turnover) 1USD=97.82			April 2012 (Average Daily Turnover) 1USD=80.74		
215.2 (JPY 21.05 trillion)			75.4 (JPY 6.09 trillion)		
Marry Amount※1	Cover Amount※2		Marry Amount	Cover Amount	
116.6	98.6		34.1	41.3	
	Market Committee	Others		Market Committee	Others
	26.2 (JPY 2.56 trillion)	72.4		18.4 (JPY 1.48 trillion)	22.9

※ 1 Marry amount = Average daily Turnover — Cover Amount

※ 2 Cover amount includes prop trades.

III. Analysis of Cover destination

① Category of Cover destination

According to Table 4. and Chart 1, the cover destination was categorized for 32 financial institutions which participated in the Annual FX Turnover Survey in July 2013 as 'Tokyo FX Committee report participants'. Financial institutions which participate in the BIS survey (conducted every 3 years)* reporting to the Bank of Japan as 'Other BOJ report participants institutions', and the financial institutions reporting to overseas central banks as 'Other central bank report participants institutions – overseas'. Besides these institutions, the others are categorized by region.

Cover destination category shows 26 financial institutions with JPY 87.2 trillion and 30 non-financial institutions with JPY 114.9 trillion. The cover amount of both financial institutions and non-financial institutions has increased from each amount of FY 2012. In the more detailed survey, the cover amount of non-financial institutions in Japan in particular marked the largest part (JPY 92.9 trillion) among all of the categories of cover destination.

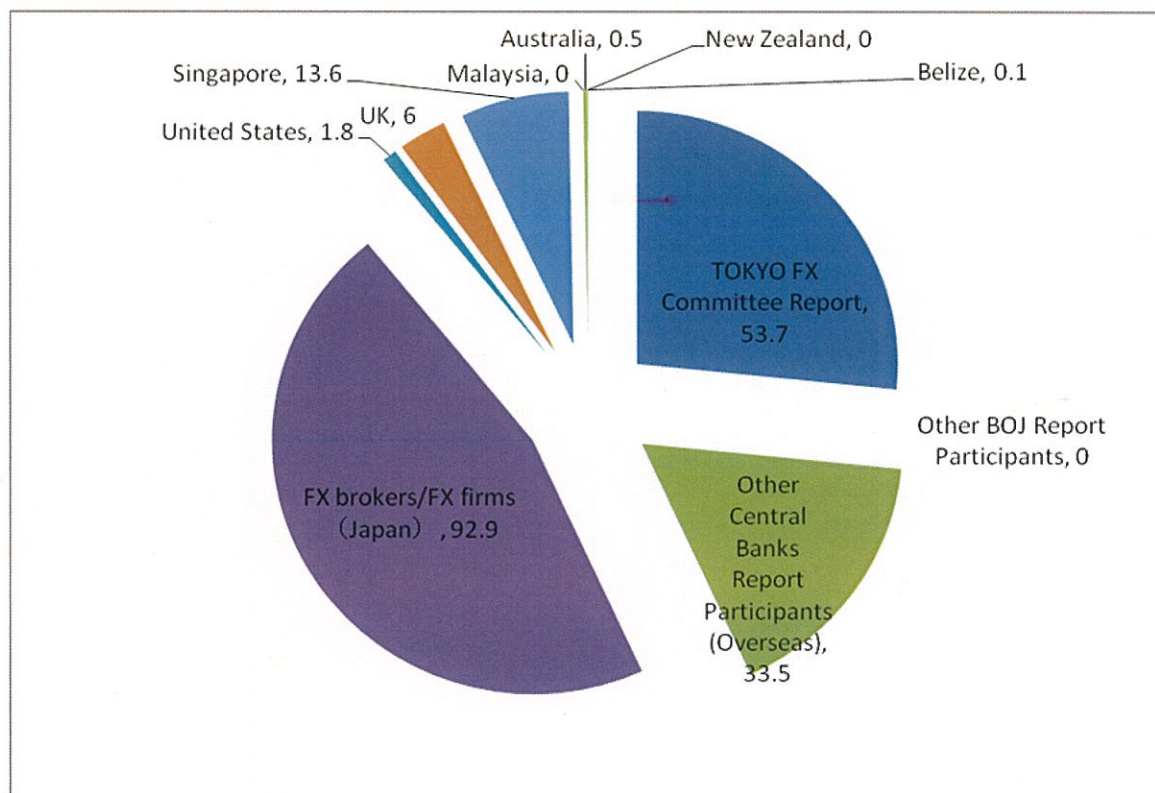
Table 4. Cover destination category (Unit: trillion of JPY)

		Institutions			Cover Amount			Percentage of Cover Amount		
		2013	2012	+/-	2013	2012	+/-	2013	2012	+/-
F I	TOKYO FX Committee Report	21	15	6	53.7	31.2	22.5	26.5	44.6	-18.1
	Other BOJ Report Participants	1	2	-1	0	0	0	0.0	0.0	0.0
	Other Central Banks Report	4	5	-1	33.5	3.2	30.3	16.5	4.6	11.9
	Participants (Overseas)									
N F I	Japan	10	13	-3	92.9	23.4	69.5	45.9	33.4	12.5
	United States (US)	3	7	-4	1.8	6.6	-4.8	0.9	9.4	-8.5
	United Kingdom (UK)	9	6	3	6	3.2	2.8	3.0	4.6	-1.6
	Singapore	4	3	1	13.6	2	11.6	6.8	2.9	3.9
	Malaysia	1	1	0	0	0	0	0.0	0.0	0.0
	Australia	1	1	0	0.5	0.4	0.1	0.3	0.6	-0.3
	New Zealand	1		1	0		0	0.0		0.0
	Belize	1	1	0	0.1	0	0.1	0.1	0.0	0.1
	Ireland		1	-1		0	0		0.0	
Financial Institutions Total		26	22	4	87.2	34.4	52.8	43.1	49.1	-6.0
Non-Financial Institutions Total		30	33	-3	114.9	35.6	79.3	56.9	50.9	6.0
Grand Total		56	55	1	202.5	70	132.5	100.0	100.0	

※"FI" means Financial Institutions, and "NFI" means Non-Financial Institutions.

※The number of institutions has been included if there's no trades during the survey period.

Chart 1. Cover Destination by category in July 2013 (Unit: trillion of JPY)



② Turnover by market category of Cover destination

Compared with the figure of April 2012, the cover amount in both the domestic and overseas markets increased; JPY 146.6 trillion in domestic and JPY 55.9 trillion in overseas. The percentage of the amount of overseas market rose by 5.6%, from 22.0% to 27.6%, while the percentage of the amount of the domestic market decreased accordingly. While the cover amount in 2013 greatly increased from both amounts in 2011 and 2012, the percentage of cover amount between the domestic market and the overseas market has had almost the same tendency; about 75% of total cover trades occurred in the domestic market and the other 25% was done in the overseas market.

Table 5. Percentage of Cover destination market category (Unit: trillion JPY)

Market	The Number of Institutions		Cover Amount		Percentage of Cover Amount	
	2013	2012	2013	2012	2013	2012
Domestic	32	30	146.6	54.6	72.4%	78.0%
Overseas	24	25	55.9	15.4	27.6%	22.0%
Total	56	55	202.5	70	100.0%	100.0%

※ Tokyo branches of foreign financial institutions are included in domestic market.

Chart 2. Cover Destination by market (Unit: trillion JPY)

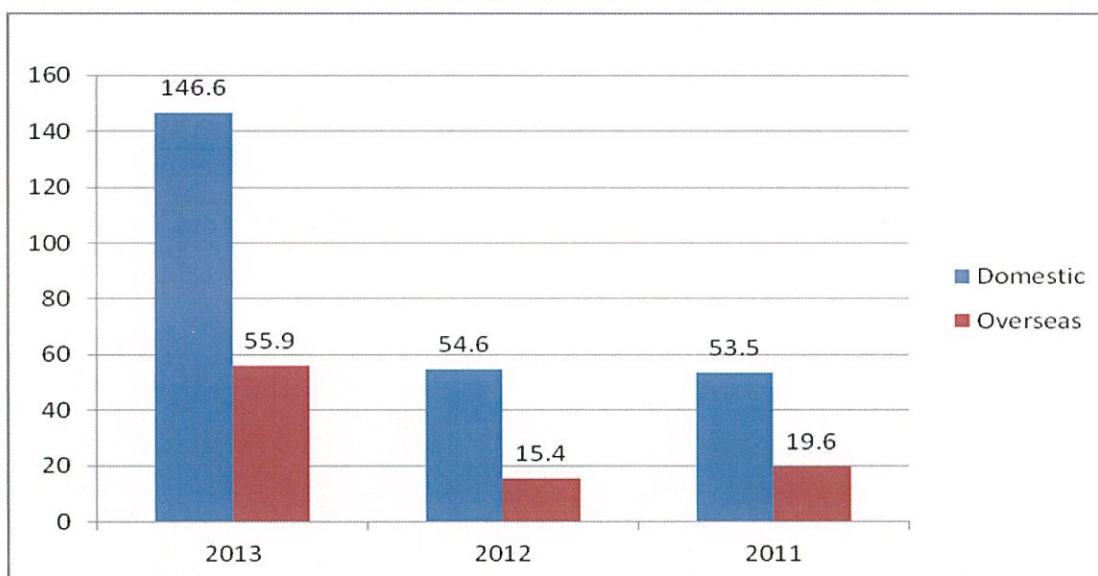
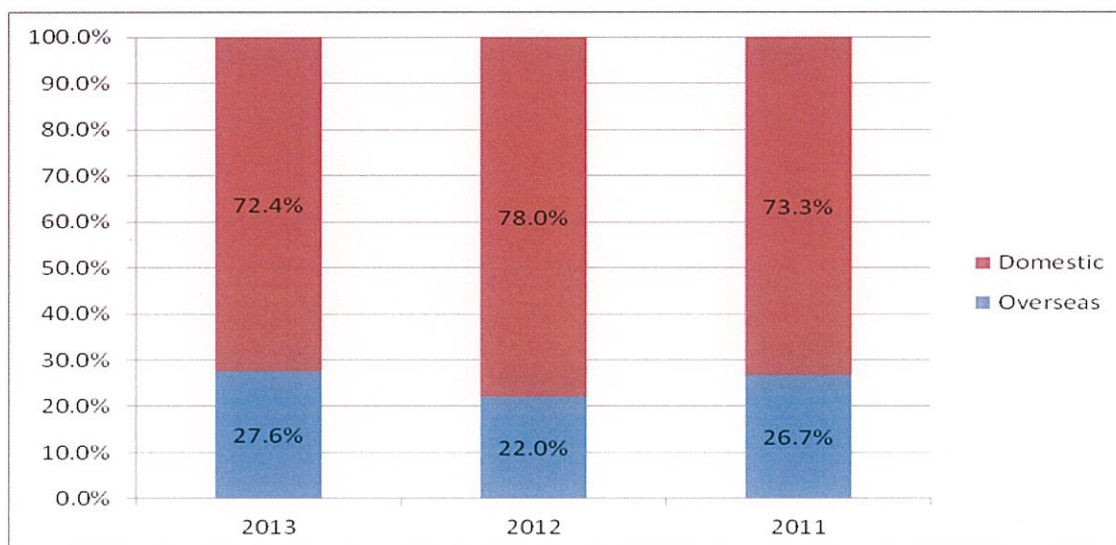


Chart 3. The percentage comparison between domestic and overseas markets (Unit: %)



③ Turnover of Domestic/Overseas Institutions when Cover designation category is Overseas.

This year the FFAJ also investigated current conditions of both the domestic and overseas cover destinations, as there are numerous types of financial institutions.

As a result, as shown in Table 5, the percentage of the cover amount in the domestic market decreased 5.6% from the previous year to 72.4%, while, as shown below in Table 6, the percentage of the cover amount in domestic financial institutions increased 13.0% from the previous year to 47.4%. The cover amount in both the domestic and the overseas markets greatly increased from the amount of April in 2012; JPY 96.2 trillion was dealt by the domestic institutions and JPY 106.3 trillion was dealt by the overseas institutions. The amount dealt by the domestic institutions was smaller than that of the overseas institutions. However, the increased volume of cover amount from the previous year is larger than the overseas institutions.

Table 6. Percentage of Institutions category for overseas Cover destination (Unit: trillion of JPY)

	Number of Institutions			Cover Amount			Percentage of Cover Amount		
	2013	2012	+/-	2013	2012	+/-	2013	2012	+/-
Domestic	15	14	1	96.2	24.1	72.1	47.4%	34.4%	13.0%
Overseas	41	41	0	106.3	45.9	60.4	52.6%	65.6%	-13.0%
Total	56	55	1	202.5	70	132.5	100.0%	100.0%	

* Western banks under Tokyo booking and added into global booking is included as overseas institutions. Cover destination of US FX broker is included as overseas institution.

Chart 4. Cover Amount by domestic and overseas institutions (Unit: trillion JPY)

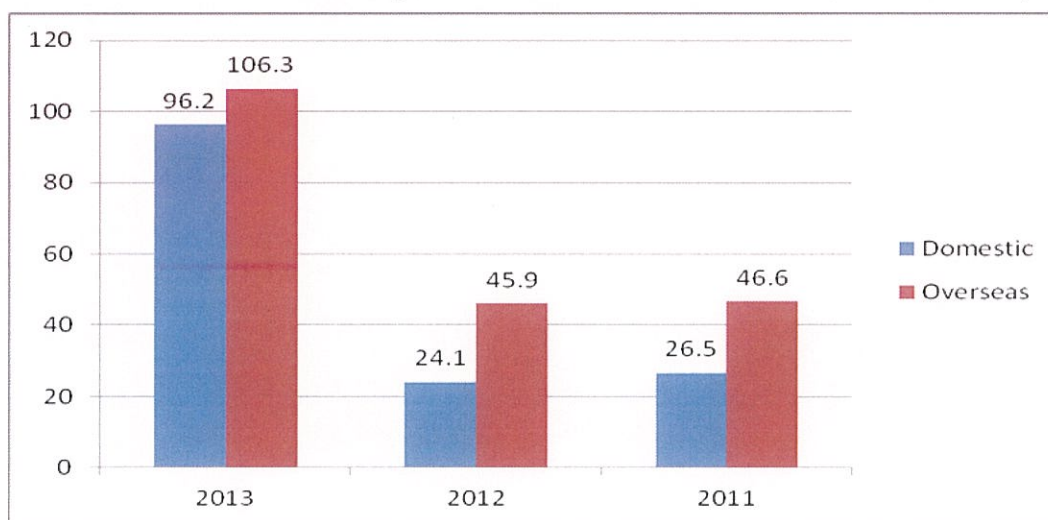
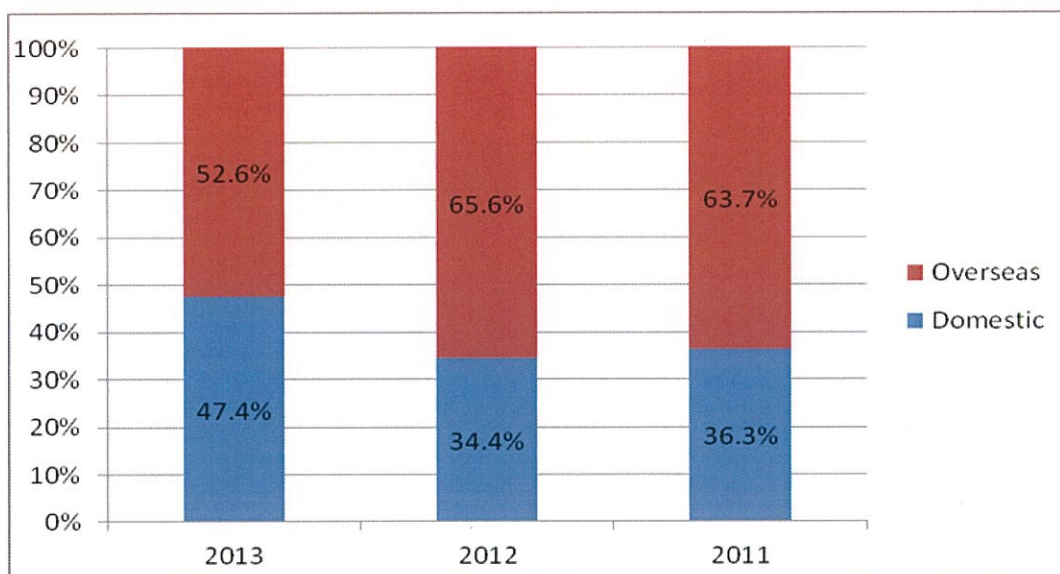


Chart 5. Percentage of Cover Amount by domestic and overseas institutions (Unit: trillion JPY)

(Each percentage below is shown with the total cover amount as 100%)



※ In chart 4 and chart 5, we displayed the figures (amount and percentage) of April 2011 because we had done the same type of the survey as this report.

* Footnotes

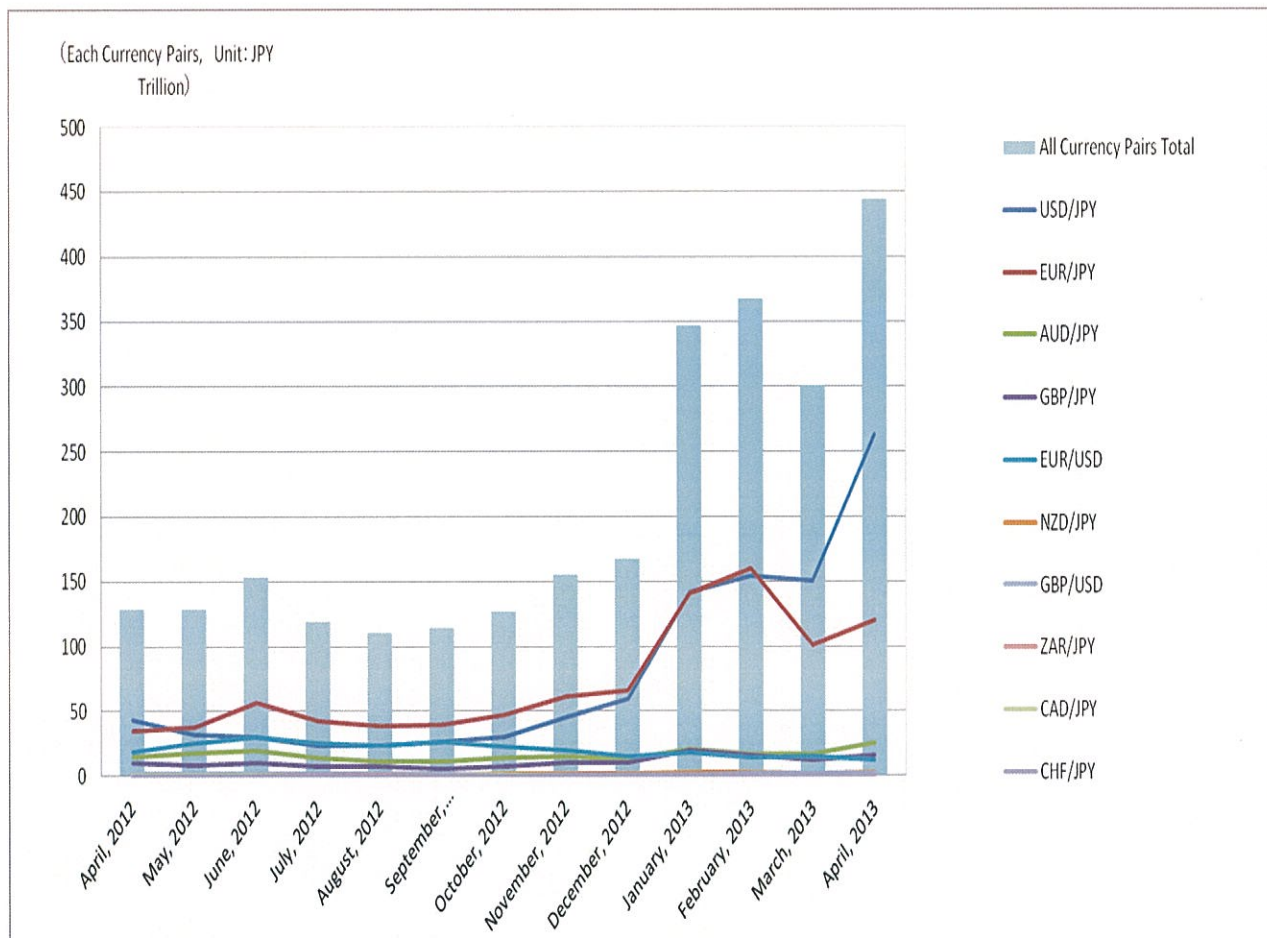
*1 FFAJ manages the data of the copy of the monitoring hearing which is submitted to FSA every month by each OTC Margin FX member as a barometer of OTC Margin FX trading.

*2 As a reference, “Reference Chart. Historical Records of OTC FX Monthly Report” (Period: April 2012 ~ April 2013) is attached at the end of this report.

*3 Tokyo FX Market means a FX Market in which participants are located mainly around Tokyo trade foreign exchange during the daytime in Japan. In this report, the participant is defined as the financial institutions subject to “The survey of the trading volume of Foreign Exchange conducted by Tokyo FX Committee”

*4 The BIS survey is carried out every 3 years. Both FX and derivative transactions are included as the object of this survey. BIS conducted this survey with the cooperation of numerous financial institutions through central banks of each country and region, and the result of this survey is internationally accepted as being entirely based on reliable statistics. According to the official announcement of BIS, the final report of the whole BIS survey will be published at the end of 2013.

* Reference Chart. Historical Records of OTC FX Monthly Report (Unit: trillion of JPY)
(Period: April 2012 ~ April 2013)



※The chart was made according to the data of OTC FX Monthly Report published by FFAJ; The main 10 currency pairs were selected for this chart.

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