Forex Industry Special Report

The Foreign Exchange (Forex) market is considered the largest and most liquid financial market in the world, trading a staggering 5.3 trillion US dollars every single day.

That astounding volume was recently reported in the “Central Bank Survey of Foreign Exchange and Derivatives Market Activity” which was conducted by the Bank for International Settlements (BIS), an organization that acts as a central bank for the world’s monetary authorities.

This high profile survey started in 1989 and is conducted once every three years. In April 2007, the daily Forex volume was USD3.3 trillion. In April 2010, this volume increased to USD4 trillion. By the time the survey was done in April 2013, the daily volume had surged to USD5.3 trillion daily.

Amidst a backdrop of global uncertainty from US to Europe and Asia, the results from the BIS survey are clear: Forex trading is here to stay. The majority of the volume was focused in four areas: UK, US, Singapore and Japan. In fact, these four places alone intermediated 71% of the total 5.3 trillion daily volume, up from 66% in 2010.

Turnover by Volume

The US dollar remained the dominant vehicle currency; it was on one side of 87% of all trades in the BIS survey. This value is 2% higher compared to the results in 2010. The euro was the second most traded currency, but its share fell to 33% in 2013 from 39% in 2010. The turnover of the Japanese yen increased significantly between the 2010 and 2013 surveys. Two emerging market currencies entered the top 10 most traded currencies for the first time – the Mexican peso and the Chinese renminbi.

Turnover in the Mexican peso reached USD135 billion in 2013, raising the peso’s share in global FX trading to 2.5%. The Mexican peso has thus become part of the group of the world’s 10 most actively traded currencies, ahead of well established currencies such as the New Zealand dollar and the Swedish Krona.

The role of the renminbi in global FX trading has also surged, in line with increased efforts to internationalise the Chinese currency. Renminbi turnover soared from USD34 billion to USD120 billion. The renminbi has thus become the ninth most actively traded currency in 2013, with a share of 2.2% in global FX volumes, mostly driven by a significant expansion of offshore renminbi trading.

Major Currencies

Among the major currencies, trading in the Japanese yen jumped the most, rising by 63% since the 2010 survey. The biggest jump in yen trading occurred between October 2012 and April 2013 because of Japanese monetary policies which advocated a weaker yen. As a result, the yen significantly expanded its share in global FX trading by 4 percentage points to 23% in 2013.

Among the most actively traded advanced economy currencies, the Australian and New Zealand dollars continued increasing their share in global FX trading. By contrast, the sterling, the Canadian dollar, the Swedish krona and the Swiss franc lost ground.

As of 2013, the top 10 most traded currencies are:

1) USD
2) EUR
3) JPY
4) GBP
5) AUD
6) CHF
7) CAD
8) MXN
9) CNY
10) NZD

Retail FX Survey 2013

According to a recent FX survey conducted at over 30 Forex brokers worldwide, 52% of the respondents expect the Meta Trader 4 (MT4) platform to remain as the one most commonly used by traders.

In the same survey, a whopping 78% mentioned that social trading would be a sustainable trend in the years to come. Some of the most common social trading platforms include Currensee, Sirix, Tradency, Zulutrade, Myfxbook and eToro. The entire social trading industry is currently estimated to host about 235,000 users with a combined total of USD240 million of customer funds. In fact, over a five year period, 600,000 clients used social trading, and the largest markets are Japan, which accounts for 30% of the entire social trading market, followed by Europe and Russia representing 15% each.

Future Trends

Over the next few years, the volume of retail Forex trading is expected to rise even further. The markets that are seen to rapidly gain market share include Latin America, Middle East, Asia and Africa. The market that would record the biggest drop in volume would be USA. The primary reason for this would be the tight regulatory capital requirements meted out on Forex brokers by the industry watchdog, the National Futures Association (NFA).