Exchange rate exposure of the key financial institutions in the foreign exchange market

Anna D. Martin*
School of Business, Fairfield University, Fairfield, CT 06430, USA

Received 16 June 1998; accepted 7 September 1999

Abstract

Exchange rate exposure is assessed for key individual financial institutions, country-specific portfolios, and global portfolios. The results show that the majority of the key individual institutions are significantly exposed. U.K., Swiss, and Japanese portfolios are found to be significantly exposed, whereas U.S. portfolios are not exposed. There is also some evidence that exchange rate exposure does not exist on a global level. To the extent that the vast majority of currency trading is conducted among the financial institutions included in the portfolio, exposure is expected to be insignificant as gains accrued by one institution would be offset by losses incurred by another institution. © 2000 Elsevier Science Inc. All rights reserved.

JEL classification: F31; G2

Keywords: Financial institutions; Exchange rate exposure; Interbank foreign exchange market

1. Introduction

Past studies on the exchange rate exposure of financial institutions have focused primarily on U.S. banks (e.g., Choi, Elyasiani, & Kopecky, 1992; Wetmore & Brick, 1994; Chamberlain, Howe, & Popper, 1997; Choi & Elyasiani, 1997). Even though U.S. banks dominate the foreign exchange (FX) interbank market, non-U.S. banks are also heavily involved in the FX market. A 1996 survey by Euromoney identifies 30 financial institutions from around the world that constitute 75% of the FX market.
Table 1 displays their estimated 1996 market shares and countries of origin. This list reveals that eight U.S. institutions control 30% of the FX market and twenty-two non-U.S. institutions control 45% of the FX market. Institutions from the U.K., Switzerland, Hong-Kong, France, Germany, Canada, and Japan control 12, 8, 6.5, 4, 3.5, 3, and 2%, respectively. Interestingly, the largest banks in the world do not necessarily dominate the FX market. Using a 1996 ranking by *Institutional Investor*, 4 of the 10 largest banks in the world are not considered to be key FX participants.

There is evidence that U.S. banks are exposed to exchange rate risk. Choi, Elyasiani, and Kopecky (1992) find approximately 20% of U.S. banks are significantly exposed
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات