

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

October 9, 2016

Press Release

Israel’s foreign currency market in September 2016

**1. The Exchange Rate**

**Strengthening of the shekel against the euro and dollar, in parallel with a**

**weakening of the dollar worldwide.**

In September, the shekel strengthened by about 0.7 percent against the dollar and by about 0.4 percent against the euro.

Against the currencies of Israel's main trading partners, in terms of the nominal effective exchange rate of the shekel (i.e., the trade-weighted average shekel exchange rate against those currencies), the shekel strengthened by about 0.65 percent in September.

Worldwide, the US dollar weakened against most major currencies in September. The dollar weakened by 0.3 percent against the euro, by 2.1 percent against the Japanese yen, and by 1.6 percent against the Swiss franc. In contrast, the dollar strengthened by 1.3 percent against the British pound.

**2. Exchange Rate Volatility**

**A decline in actual volatility of the exchange rate in parallel with a decline in implied volatility.**

The standard deviation of changes in the shekel-dollar exchange rate, which represents its actual volatility, decreased by about 1.3 percentage points in September, to 4.5 percent at the end of the month.

The average level of implied volatility in over the counter shekel-dollar options––an indication of expected exchange rate volatility––declined by about 0.2 percentage points, to 7.5 percent at the end of September.

In contrast, the implied volatility in foreign exchange options in emerging markets increased, to an average of about 10.7 percent, and the implied volatility in foreign exchange options in advanced economies also increased, to about 9.8 percent at the end of September (Figure 4).

**3. The Volume of Trade in the Foreign Currency Market**

**Total trading volume increased, in parallel with an increase in nonresidents’ relative share of total trading volume.**

Total trading volume in foreign currency in September was about $150 billion, compared with about $148 billion in August. Average daily trading volume increased by about 6 percent, to about $6.8 billion.

The trading volume in spot and forward transactions (conversions) was about $33 billion in September. Average daily trading volume in those transactions increased in September by about 15 percent compared with August.

The trading volume in over the counter foreign currency options (which are not traded on the stock exchange) totaled about $2.7 billion in September. The average daily trading volume in those options declined by about 2 percent in September compared with August, to about $123 million.

The trading volume of swap transactions was about $114 billion in September, compared with about $115 million in August. Average daily trading volume increased by about 4 percent from the previous month, to around $5 billion.

Nonresidents' share of total trade (spot and forward transactions, options and swaps) increased to about 33 percent at the end of September. The increase derived from an increase in the volume of activity by nonresidents in swap and conversion (spot and forward) transactions.











