**Israel’s foreign currency market in April 2013**

**1. The Exchange Rate**

**The shekel strengthened against the dollar, in parallel with the dollar's weakness against global currencies**

The shekel appreciated by about 1.5 percent against the dollar during April, while weakening by about 0.7 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 0.5 percent.

In April, the dollar weakened against global currencies—by about 1.8 percent against the Swiss franc, by about 2.3 percent against the euro, and by about 2.1 percent against the pound sterling.

**2. Exchange Rate Volatility**

**Actual and implied volatility of the exchange rate declined**

The standard deviation of changes in the shekel-dollar exchange rate, which represents its actual volatility, declined in April to 4 percent, compared with 5.6 percent in March.

The average level of implied volatility in over the counter shekel-dollar options ––an indication of expected exchange rate volatility–– declined moderately. In April, the implied volatility of foreign exchange options was 8.4 percent in emerging markets, and 8.2 percent in advanced economies, similar to their levels in March.

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

**There was an increase in average daily trading volume along with an increase in nonresidents' share of trading volume**

**The total volume of trade in foreign currency** in April was about $92 billion, compared with about $79 billion in March. Average daily trading volume increased by about 5 percent in April, and reached about $4.6 billion.

**The volume of trade in spot and forward transactions (conversions)** was about $31 billion in April. The average daily trading volume in those transactions increased in April by about 4 percent compared with March. During April, the Bank of Israel purchased $530 million[[1]](#footnote-1).

**The volume of trade in over the counter foreign currency options** (which are not traded on the stock exchange) totaled about $10.3 billion in April. The average daily trading volume in those options in April was $516 million, similar to its level in March.

**The trading volume of swap transactions** was about $50 billion in April. Average daily turnover increased by around 6 percent.

**Nonresidents' share of total trade** (spot and forward transactions, options and swaps) increased in April to 44 percent, compared with 43 percent in March.



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| **Forex transactions with domestic banks, by instruments and derivatives ($ million)** |
|  |  |  **Conversions (1)**  |  **Swapsa (2)** |  **Cross Currency swape (3)** |  **Optionsb (4)** | **Total volume of trade (1)+(2)+(3)+(4)** |
| **April-13 (Not final)** | Total | **31,477** | **50,224** | **286** | **10,320** | **92,307** |
|  Daily average (20 days) | **1,574** | **2,511** | **14** | **516** | **4,615** |
| Nonresidents | **11,881** | **23,086** | **0** | **5,328** | **40,295** |
|  *of which* Foreign financial institutions | **11,143** | **23,080** | **0** | **5,105** | **39,328** |
| Residents | **19,596** | **27,138** | **286** | **4,992** | **52,012** |
|  *of which* Real sector | **6,359** | **3,022** | **158** | **1,991** | **11,530** |
|  Financial sector | **2,955** | **9,488** | **0** | **763** | **13,206** |
|  Institutions (incl. insurance companies) | **2,871** | **4,909** | **0** | **26** | **7,806** |
|  Individuals and provident funds | **698** | **493** | **0** | **1,284** | **2,475** |
|  The Bank of Israel | **530** | **0** | **0** | **0** | **530** |
|  Otherc | **2,905** | **71** | **0** | **36** | **3,012** |
|  Domestic banksd | **3,278** | **9,155** | **128** | **892** | **13,453** |
|   |  |   |   |   |   |   |
| **March-13** | Total | **26,819** | **42,617** | **459** | **9,278** | **79,173** |
|  Daily average (18 days) | **1,490** | **2,368** | **26** | **515** | **4,399** |
| Nonresidents | **10,492** | **19,780** | **0** | **3,771** | **34,043** |
|  *of which* Foreign financial institutions | **9,833** | **19,678** | **0** | **3,077** | **32,588** |
| Residents | **16,327** | **22,837** | **459** | **5,507** | **45,130** |
|  *of which* Real sector | **5,517** | **3,033** | **419** | **1,451** | **10,420** |
|  Financial sector | **2,858** | **8,217** | **0** | **1,290** | **12,365** |
|  Institutions (incl. insurance companies) | **1,220** | **4,653** | **0** | **2** | **5,875** |
|  Individuals and provident funds | **661** | **177** | **0** | **1,531** | **2,369** |
|  The Bank of Israel | **0** | **0** | **0** | **0** | **0** |
|  Otherc | **2,706** | **50** | **0** | **46** | **2,802** |
|  Domestic banksd | **3,365** | **6,707** | **40** | **1,187** | **11,299** |
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| a Only one leg of the swap, i.e., the nominal value of the transaction (in accordance with the BIS definition). |  |
| b The notional value, that includes purchases and sales of put and call options. |  |
| c Including other entities such as portfolio managers, nonprofit organizations, national institutions, and those not included elsewhere. |
| d Total interbank trade, divided by 2 |
| e The exchanged founds through Cross Currency Swap transactions considered for the volume, as one leg only in cases where the two legs offset each other.  |
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1. This figure is not identical to the figure published in the foreign exchange reserves notice. The difference derives from foreign exchange purchases of $430 million which were transacted on the last day of April, but for which the transaction valuation date is in May. [↑](#footnote-ref-1)