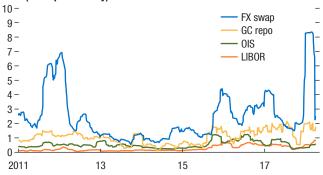
Figure 1.26. Foreign Exchange Swap and Short-Term Bank Funding Markets

Some non-US banks are reliant on cross-currency funding via swaps.

1. US Dollar Cross-Currency Funding Ratio (Net cross-currency derivatives as percent of total assets) 50__ CAN DEU — FRA — GBR -Non-US banks CHE 40 -30 -20 10--202000 02 04 06 08 10 12 14 16

... and foreign exchange swaps are more volatile than other short-term funding sources.

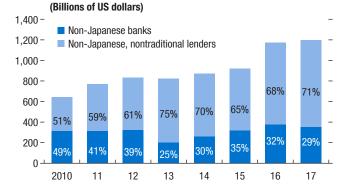
3. Sixty-Day Realized Volatility of Three-Month US Dollar Funding Rates (Basis points a day)



... while the supply is shifting from banks to nontraditional financial institutions

Institutions

5. Supply of Foreign Exchange Derivatives to Japanese Financial



Cross-currency basis swap spreads have widened sharply in the past ...



Demand to hedge foreign currencies by Asian financial institutions is increasing ...

4. Demand for Foreign Exchange Derivatives by Asian Financial Institutions (Billions of US dollars)



US dollar LIBOR-OIS spreads have widened recently.

6. Three-Month LIBOR-OIS Spreads (Basis points)



Sources: Annual reports; Bank for International Settlements; Bank of Japan; Bloomberg Finance L.P.; Financial Supervisory Commission (Taiwan Province of China); the Korean Life Insurance Association; and IMF staff estimates.

Note: In panels 4 and 5, the latest data are as of September 2017. In panel 4, data for Korea life insurers and the National Pension Service are estimated assuming 100 percent hedging of their foreign investments. For Taiwan Province of China life insurers, the assumption is a 50 percent hedging of their foreign investments. Data labels in panel 1 use International Organization for Standardization (ISO) country codes. FX swap = foreign exchange swap (average of euro-dollar and yen-dollar); GC repo = general collateral repurchase agreement; LIBOR = London interbank offered rate; OIS = overnight indexed swaps.