

OTC FINANCIAL DERIVATIVES MARKETS IN ASIA AN INITIATIVE TOWARDS GLOBALISATION

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ABSTRACT

This paper attempts to review OTC derivatives markets, in 8 Asian economies, namely- China, Chinese Taipei, India, Indonesia, Korea, Malaysia, Philippines and Thailand. At the same time, it attempts to identify factors determining the OTC foreign exchange, derivatives turnovers. The simple bi-variate correlations of foreign exchange derivatives turnover, with some structural economic factors, that are generally associated with the growth of derivatives markets have been studied. The aim is to identify potential drivers of foreign exchange derivatives turnover, as a first step in a more rigorous econometric analysis.

The study shows that, activities in OTC derivatives markets are growing in these Asian economies and their share in global derivatives markets is increasing as well. The pace of activities in OTC interest rate derivatives, in these economies lagged behind that, of OTC foreign exchange derivatives activities. This reflects the lagging development and liquidity in the bond, and money markets in these economies in contrast to those, in advanced economies.

There has been major share of activities, in derivatives markets with reporting dealers, indicating relative immaturity of OTC derivatives markets, in these economies. About one-third of transactions in derivatives markets, in these Asian economies, related to cross-border. However, this is far below the level of cross border transactions, in advanced economies.

According to the study, financial openness, level of foreign exchange reserves and trade openness of the economies appear as main driving forces behind the activities and turnovers, in OTC foreign exchange derivatives markets.

KEYWORDS: Foreign Exchange Derivatives, Interest Rate Derivatives, Foreign Exchange Outright Forwards, Foreign Exchange Swaps, Currency Swaps