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Developments in and Characteristics of Japan's FX Market: An Analysis Based on the 2025 BIS Triennial Central Bank Survey

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In response to the announcement of U.S. reciprocal tariffs in April 2025, the foreign exchange (FX) market experienced rapid fluctuations. This paper aims to analyze the structural characteristics of transactions in Japan's FX market, based on the results of the Triennial Central Bank Survey conducted by the Bank for International Settlements (BIS) in April 2025. The analysis considers various perspectives such as instrument, currency, and counterparty. Additionally, this paper examines the factors driving FX turnover in Japan, comparing it to other FX markets in Asia.

Introduction

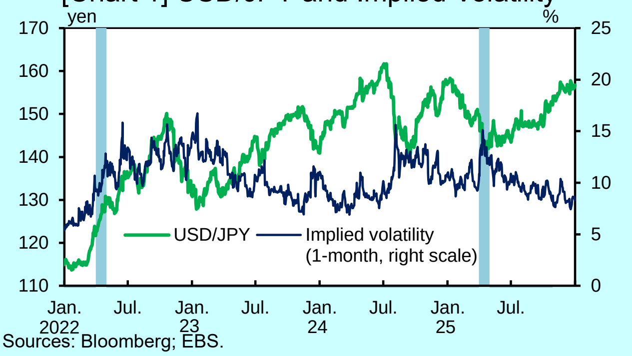
Central banks and other authorities around the world survey FX turnover every three years in April under the coordination of the BIS. This is a part of the BIS Triennial Central Bank Survey (the BIS Triennial Survey), the only comprehensive source of information on FX trading.[1] The BIS Triennial Survey collects a wide range of data from over 50 jurisdictions by a common international methodology, within some constraints, such as ones on the frequency and immediacy of the data.

In April 2025, an announcement of U.S. reciprocal tariffs (April 2nd) sparked concerns about a potential economic downturn in the U.S. This in turn led to a stronger expectation of dollar depreciation, and the USD/JPY exchange rate fell from the upper 149-yen to the lower 143-yen level. Market volatility also increased significantly (Chart 1).

According to the April 2025 BIS Triennial Survey (hereafter the latest survey), the global FX turnover significantly increased, by 28.5 percent, compared to the April 2022 BIS Triennial Survey (hereafter the 2022 survey), setting a new record high since the survey began (Chart 2). In terms of currency pairs, a wide range, including USD/JPY and EUR/USD, contributed to the increase, while in terms of instruments, spot and forwards drove the overall growth (Chart 3). As background behind the increase, it has been pointed out that the stronger market views for dollar depreciation and increase in volatility led to active trading by short-term market participants and active currency hedging by institutional investors.[2]

This paper summarizes the structural characteristics of trading in Japan's FX market from various perspectives, such as instrument, currency, and counterparty, based on the results of the latest survey. In addition, this paper examines the factors driving changes in turnover in Japan's FX market, in comparison with other FX markets in Asia.

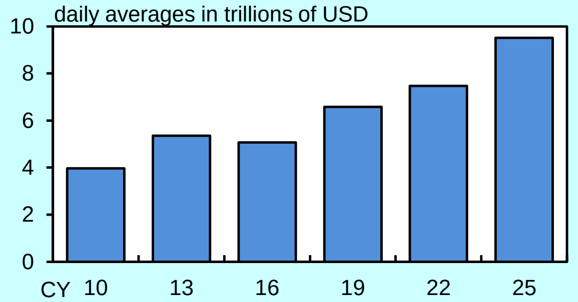
[Chart 1] USD/JPY and Implied Volatility



Sources: Bloomberg; EBS.

Notes: 1. Shaded areas denote the previous and latest survey periods. Latest data as at end-December 2025.
2. Figures of USD/JPY are based on EBS.

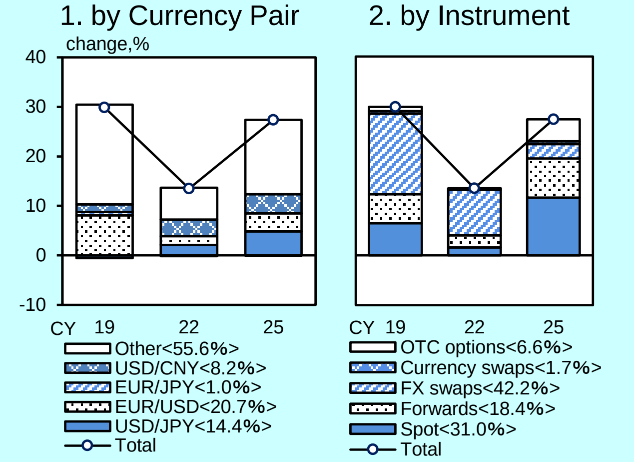
[Chart 2] Global FX Turnover



Source: BIS.

Notes: 1. Turnover is daily average in each survey period in USD (the same shall apply hereinafter).
2. Turnover is adjusted for the double counting of transactions between two reporting dealers regardless of their locations ("net-net" basis). For details on the adjustment method, see the BOX at the end.

[Chart 3] Breakdown of Global FX Turnover



Source: BIS.

Notes: 1. "Net-net" basis.

2. Figures in angle brackets represent shares of the total of the latest survey.

3. CNY includes offshore transactions denoted by CNH.

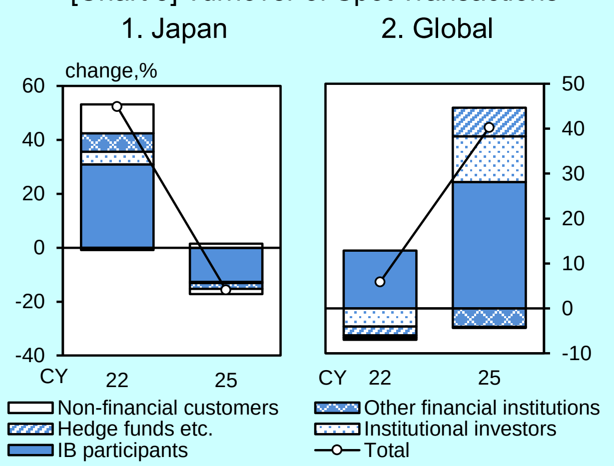
Characteristics in Japan's FX Market in 2025

Key results of the 2025 BIS Triennial Survey

In the latest survey, the average daily FX turnover in Japan reached $440.2 billion, the highest since the survey began and up 1.8 percent from the 2022 survey. By currency pair, EUR/USD contributed most to the increase, and in terms of instruments, FX swaps were the main driver of the overall growth. Additionally, with regard to counterparties, interbank (hereafter IB) participants increased the most. In contrast, USD/JPY, spot, and non-financial customer transactions decreased (Chart 4).

The factors driving the increase in global FX turnover are generally considered to be driving Japan's FX turnover as well. However, whereas there was significant growth in global FX turnover, the growth in Japan's FX market was relatively modest. This disparity can be attributed to factors unique to Japan, namely (1) a rise in the internalization ratio and (2) reduced trading activity among corporate participants. These factors would have contributed to a decline in transactions involving IB participants and non-financial customers in the spot market (Chart 5).

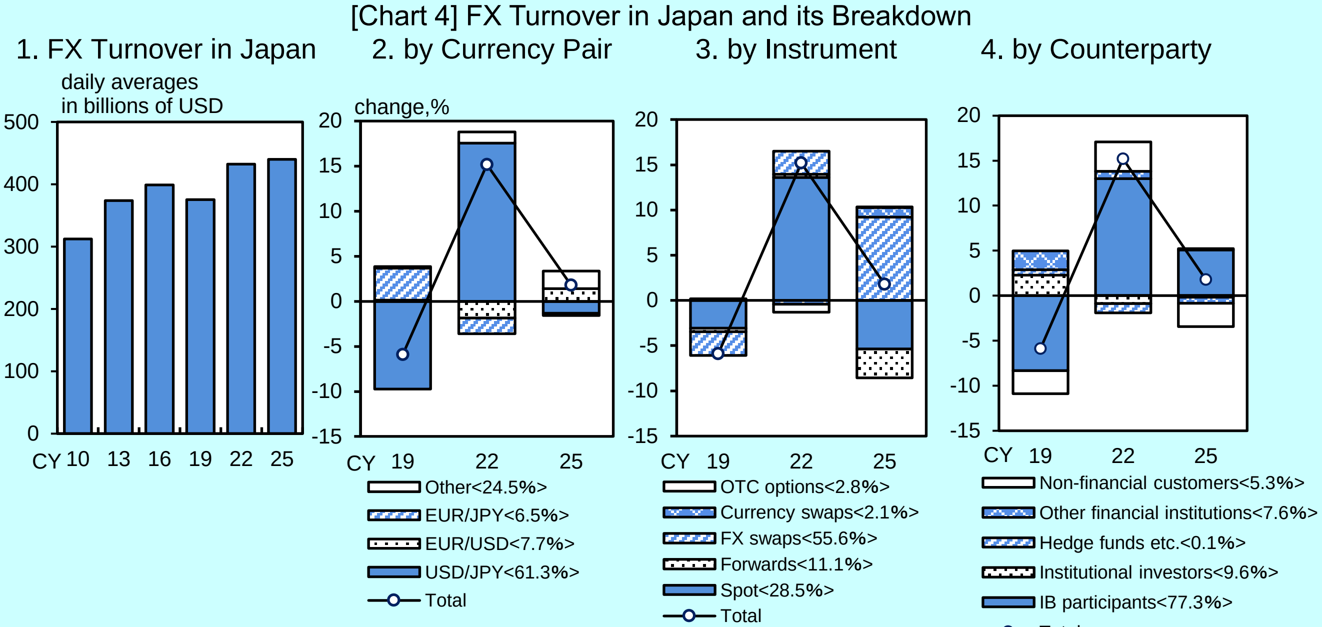
[Chart 5] Turnover of Spot Transactions



Source: BIS.

Note: Japan's data are on a "net-gross" basis, while global data are on a "net-net" basis.

[Chart 4] FX Turnover in Japan and its Breakdown



Source: BIS.

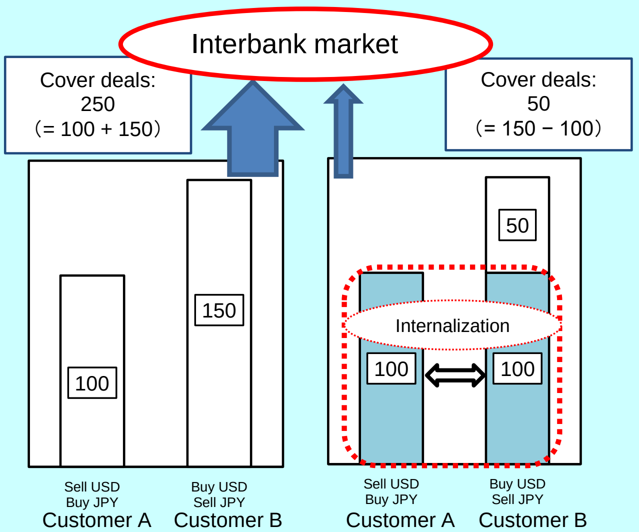
Notes: 1. Turnover is adjusted only for the local double counting of transactions between two reporting dealers in Japan ("net-gross" basis).

2. "IB participants" is the sum of transactions with reporting dealers and those with non-reporting banks. "Other financial institutions" includes transactions with official sector financial institutions and FX retail aggregators etc.

(1) A rise in the internalization ratio

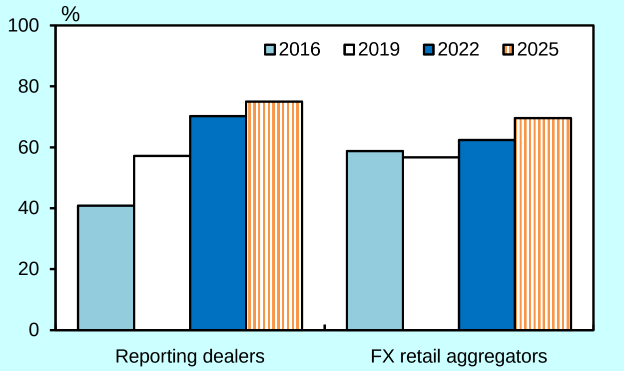
"Internalization" refers to the process where IB participants offset buy orders from some clients with sell orders from other clients within their own institution (or vice versa). When IB participants respond to a client's order to buy USD and sell JPY, they typically execute a cover deal in the IB market. However, if they manage to offset this order with another client's order to sell USD and buy JPY, they can capture the full spread between the bid and ask prices quoted to clients as profits while minimizing trading costs in the IB market (Chart 6).

[Chart 6] Mechanism of Internalization



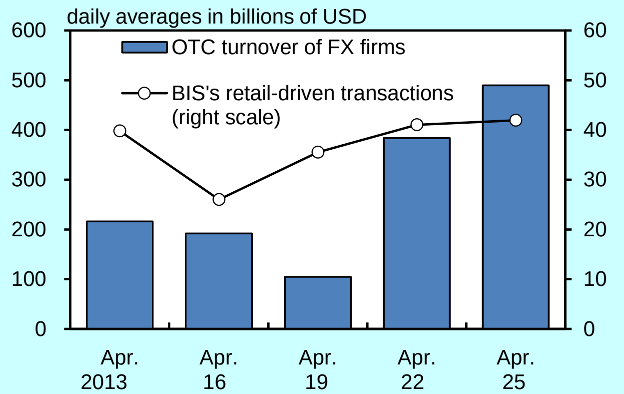
Such efforts have been led primarily by major foreign financial institutions, which have developed proprietary FX trading platforms (such as SDPs)[3], particularly in spot trading,[4] where transaction terms are standardized and offsetting is relatively simple. However, Japanese financial institutions are also working to enhance their pricing competitiveness by improving their internalization ratio. In fact, the internalization ratio among Japan's reporting dealers in the BIS Triennial Survey has been on an upward trend, and this is believed to have contributed to a decline in spot trading among IB participants. Even among FX retail aggregators[5] (so called "FX firms"), there has been a growing trend to minimize the amount of cover deals as much as possible, which has led in turn to an upward trend in the internalization ratio (Chart 7). During the latest survey period, amid a rise in FX market volatility, FX margin trading flourished. The turnover between FX firms and retail investors exceeded the levels recorded in the 2022 survey and reached a historic high. However, in the BIS Triennial Survey, the turnover of retail-driven transactions, which includes transactions between reporting dealers and FX firms, remained more or less flat, reflecting the impact of an increased internalization ratio at FX firms (Chart 8).

[Chart 7] Internalization Ratio (Japan's Reporting Dealers and FX Firms)



Sources: Bank of Japan; The Financial Futures Association of Japan.

[Chart 8] OTC Turnover of FX Firms in Japan, and BIS's Retail-driven Transactions



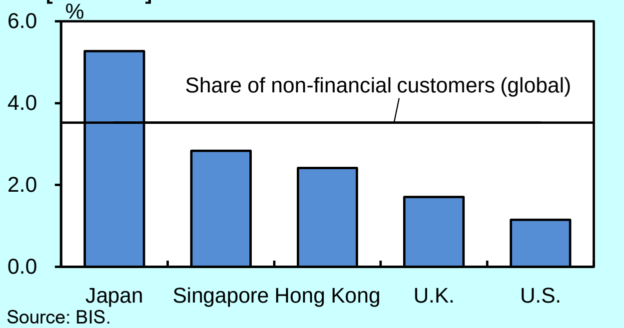
Sources: BIS; The Financial Futures Association of Japan.

Note: "BIS's retail-driven transactions" refers to all transactions initiated by retail investors. Retail investors are defined as private individuals engaging in speculative, leveraged, or cash-settled foreign exchange transactions on their own behalf, and not on behalf of any institution.

(2) Reduced trading activity among corporate participants

In Japan, non-financial customers, including corporate participants, hold a relatively high share in the FX market compared to the global average (Chart 9). Among Japanese corporate participants, there is a growing trend to promote natural hedging by offsetting foreign currency receipts and payments internally as a means of reducing FX risk. In addition, amid a shrinking trade deficit since its peak in 2022, when energy prices surged due to Russia's invasion of Ukraine, FX trading by Japanese importers driven by USD demand is believed to be on a declining trend (Chart 10). Additionally, during the latest survey period, following the announcement of U.S. reciprocal tariffs, FX market volatility increased, and amid the lack of a clear direction for USD/JPY, corporate participants adopted a more cautious stance. It has been pointed out that they refrained from both spot trading and hedging transactions using forwards and options. This would have contributed to the decrease in transactions involving non-financial customers and cover deals by IB participants.[6]

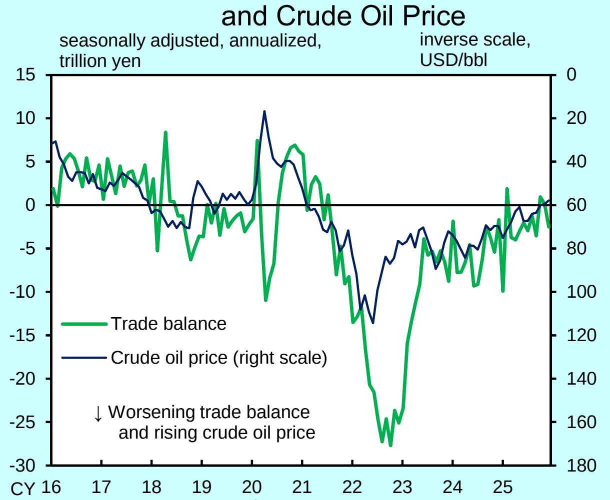
[Chart 9] Share of Non-financial Customers



Source: BIS.

Note: Based on the latest survey.

[Chart 10] Japan's Trade Balance and Crude Oil Price



Sources: Bloomberg; Ministry of Finance.

Note: Latest data as at end-December 2025.

Characteristics of Japan's FX Market in a Comparison among Three Asian Markets

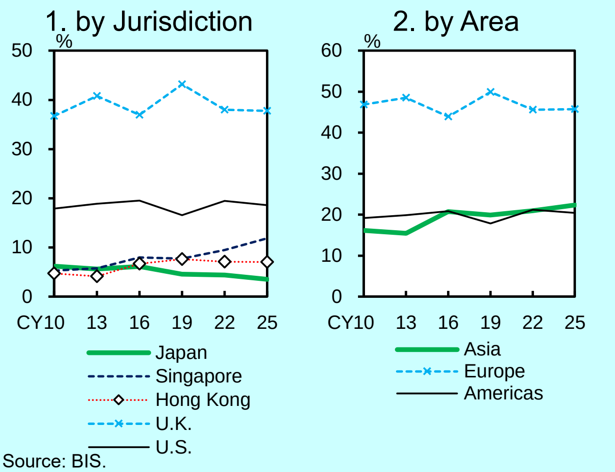
Share of Japan in global FX turnover

As previously mentioned, although FX turnover in Japan reached a record high in the latest survey, Japan's share in global turnover has been declining over time (Chart 11).

Regional share

Looking at the turnover share by region, it has remained largely unchanged for the Americas, Europe, and Asia since 2016. It is presumed that increases or decreases in turnover share have occurred within the same region (or trading hours).[7] This section discusses the characteristics of Japan's FX market and the impact of structural changes in the latest survey's results by comparing it with other Asian markets that overlap with Japan's trading hours.

[Chart 11] Share in Global FX Turnover by Jurisdiction and Area



Source: BIS.

Notes: 1. "Net-gross" basis.

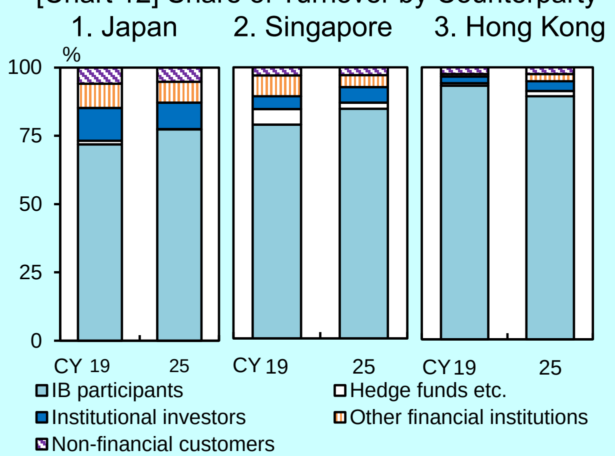
2. "The Americas" in the right figure refers to the U.S. and Canada; "Europe" refers to the U.K., Switzerland, Germany, and France; and "Asia" refers to Singapore, Hong Kong, and Japan.

(1) Comparison among three Asian markets (Japan, Singapore, and Hong Kong)

(1-1) Developments by counterparty

Participants in Japan's FX market are relatively more inclined to conduct transactions based on real demand, such as those by non-financial customers. Additionally, there is a higher prevalence of participants conducting transactions with a longer-term perspective, such as institutional investors. On the other hand, the proportion of transactions conducted by more agile participants, such as IB participants or hedge funds, is relatively low in Japan. In contrast, in Singapore and Hong Kong, the share of transactions conducted by more agile participants has remained steady at around 90% of the total, a relatively high proportion (Chart 12).

[Chart 12] Share of Turnover by Counterparty



Source: BIS.

Note: "Net-gross" basis.

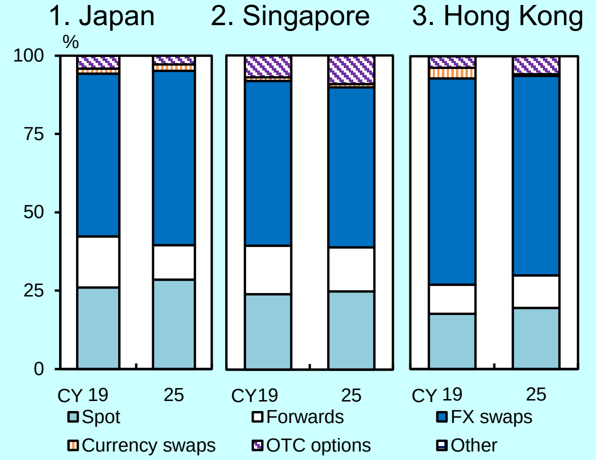
The background for this trend includes the fact that Hong Kong's FX market is the largest market for the offshore renminbi (CNH, as discussed in a later section). In the case of Singapore's FX market, the Monetary Authority of Singapore (MAS) has released the Industry Transformation Map (ITM), a growth strategy for the financial services industry, which is a strategy for making Singapore into an international financial center in Asia. This has facilitated the development of hubs for FX matching and pricing functions,[8] resulting in a growing trend of major market makers and non-bank entities, such as hedge funds, expanding business in Singapore.

(1-2) Developments by instrument

Turnover in each market is largest in the order of FX swaps, spot, forwards, options, and currency swaps. Furthermore, when looking at market share by instrument, notable trends are that the proportion of options is higher in Singapore compared to Japan and that the proportion of FX swaps is higher in Hong Kong (Chart 13). The high share of options in Singapore stems from the growing demand for FX derivatives driven by the concentration of non-bank entities, such as hedge funds, which has contributed to the expansion of the market size for instruments other than spot. The high share of FX swaps in Hong Kong is due to the significant demand for hedging and funding between HKD, CNH, and USD, given that Hong Kong's FX market serves as a financial transaction hub for various participants.

[Chart 13] Share of Turnover by Instrument

1. Japan 2. Singapore 3. Hong Kong



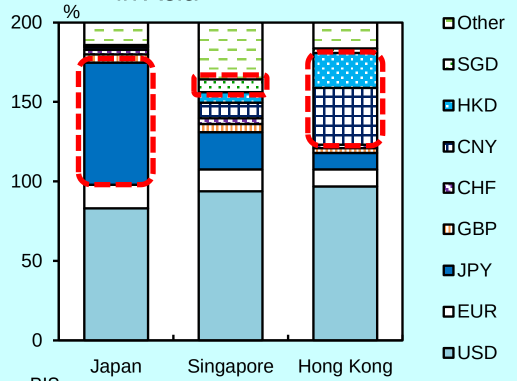
Source: BIS.

Note: "Net-gross" basis.

(1-3) Developments by currency

In each market, excluding transactions involving USD, which is a key global currency that acts as a vehicle currency in most currency transactions, JPY is prominent in Japan, while CNH and HKD dominate in Hong Kong, which has the world's largest market for CNH. On the other hand, Singapore records high turnover in JPY, while the turnover of its own currency, SGD, remains limited. Additionally, in Singapore, transactions in a diverse range of currencies, including not only G10 currencies but also volatile emerging market currencies, have become increasingly active (Chart 14).

[Chart 14] Share of Turnover by Currency Pair in Asia



Source: BIS.

Notes: 1. As two currencies are involved in each transaction, the sum of shares of individual currencies will total 200%.

2. The red frame indicates local currencies etc.

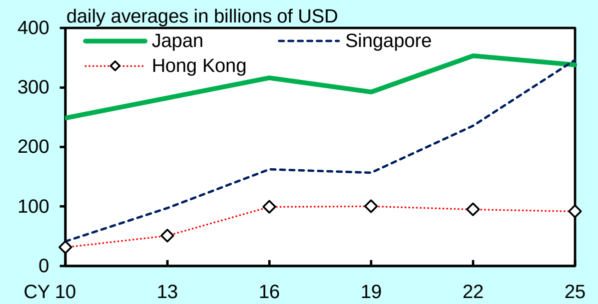
3. Based on the latest survey.

4. CNY includes offshore transactions denoted by CNH.

(2) The impact of competition among three Asian markets on Japan's turnover

Based on a comparison among three Asian markets, it is evident that currencies with high turnover shares in Hong Kong differ from those in Japan, and the characteristics of market participants also vary. This indicates that Japan's and Hong Kong's FX markets are relatively well differentiated. On the other hand, in Singapore, there are active transactions in JPY, which is a major currency in Japan's FX market. This suggests a competitive relationship between Japan and Singapore. In fact, the latest survey results reveal that JPY turnover has increased in Singapore while it has been declining in Japan. Consequently, the turnover of JPY in Singapore has surpassed that of Japan for the first time since the launch of the BIS Triennial Survey (Chart 15). This section discusses the impact of competition with Singapore on Japan's FX market by comparing these two markets.

[Chart 15] Turnover of JPY

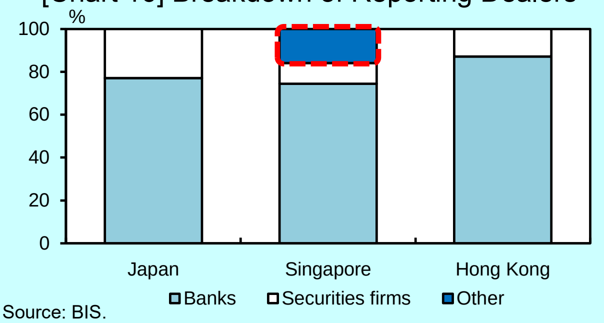


Source: BIS.

Note: "Net-gross" basis.

During the latest survey period, the growth in turnover in Singapore was primarily driven by an increase in IB transactions. Among the reporting dealers in Singapore participating in the BIS Triennial Survey, liquidity providers that offer execution and other transaction-related services to clients such as hedge funds are reasonably well represented (Chart 16). These liquidity providers tend to conduct proprietary transactions at high frequency when providing liquidity to their customers. Amid heightened FX market volatility during the latest survey period, these liquidity providers are likely to have conducted more active transactions to earn profits. This activity may have contributed to the increase in IB transactions in Singapore compared to Japan (Chart 17).

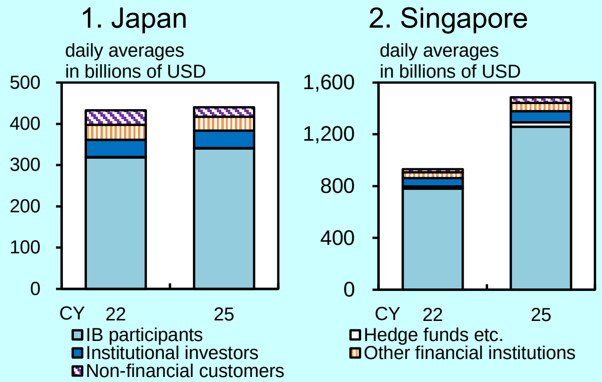
[Chart 16] Breakdown of Reporting Dealers



Source: BIS.

Note: The breakdown is based on the number of reporting dealers. Created by the author based on the list of reporting dealers published by BIS.

[Chart 17] Turnover by Counterparty



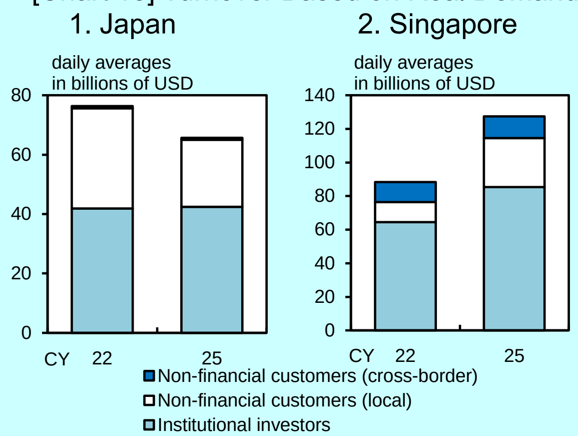
Source: BIS.

Notes: 1. "Net-gross" basis.

2. Total of all currencies.

Furthermore, when examining the trends in real demand–driven transactions, which have a significant presence in Japan, it is observed that Japan's turnover with local non-financial customers, representing transactions with domestic corporate participants in Japan, has decreased. However, since the turnover with cross-border non-financial customers in Singapore has not increased, the results of the latest survey suggest that it is unlikely that Japanese corporate participants are placing direct FX orders with sell-side banks based in Singapore. In other words, there is no indication of "outflow" of transactions from Japan to Singapore (Chart 18).

[Chart 18] Turnover Based on Real Demand



Source: BIS.

Notes: 1. "Net-gross" basis.

2. Total of all currencies.

Therefore, the decrease in turnover in Japan and the increase in Singapore observed in the latest survey are likely due to structural differences between the two markets. As Singapore's FX market continues to attract major market makers and non-bank entities such as hedge funds, its role as a hub for speculative trading is becoming more pronounced during Asian trading hours. On the other hand, Japan's FX market has strengthened its characteristic as the main market for real demand–driven transactions. This suggests a clear delineation of roles between the two markets.

Conclusion

The results of the latest survey show that, while the turnover in Japan reached a record high, the magnitude of the increase was limited compared to globally, and thus Japan's share of global turnover continues to show a declining trend over time. In contrast, Singapore's FX market has seen a significant growth in its market share in recent years, driven by an increasing consolidation of financial institutions and enhanced competitiveness. Therefore, the latest survey indicates that the gap in market share between Japan and Singapore has widened. However, a closer examination of the survey results reveals that the growth in Singapore is largely attributable to a concentration of speculative participants. The announcement of U.S. reciprocal tariffs, which triggered heightened market volatility, provided a significant boost to FX turnover in Singapore. Conversely, in Japan, rising volatility led to a decline in trading activity, particularly among domestic corporate participants, which weighed on the overall turnover in Japan. This suggests that the structural differences between these two markets have likely amplified the divergence in their turnover shares. Additionally, while an improvement in the internalization ratio in Japan may exert downward pressure on turnover, this should rather be seen as a positive development from the viewpoint of efficient market functionality.

Last year, the Nikkei Stock Average surpassed the 50,000yen mark for the first time, signaling a growing global interest in Japan's market and news originating from Japan. Investments in Japan are often accompanied by JPY-related FX transactions. Considering this environment, it is essential to continuously monitor FX turnover and structural changes in the FX market using resources such as the BIS Triennial Survey and local surveys conducted semiannually by major local FX committees.

[1] For the results of the BIS Triennial Survey on FX turnover in April 2025, see the following.

Turnover Data for Japan (link to the Bank of Japan's website): https://www.boj.or.jp/en/statistics/bis/deri/deri2504.htm

The aggregated global survey results (link to the BIS website): https://www.bis.org/statistics/rpfx25.htm

[2] According to the BIS Quarterly Review published in December 2025 (https://www.bis.org/publ/qtrpdf/r_qt2512.htm), it is estimated that approximately 1.5 trillion of the 2.0 trillion increase in turnover during the latest survey can be attributed to special factors such as U.S. reciprocal tariffs.

[3] "Single Dealer Platforms," where each market maker operates independently to provide liquidity on the same venues.

[4] It is considered relatively difficult to conduct internalization for FX swaps and forwards, which have durations, as well as for options, where terms vary depending on the transaction.

[5] FX margin trading by Japanese retail investors holds a significant presence in Japan's FX market. See Matsuda, Oyama, Yamaoka, and Bessho (2023), "Retail Foreign Exchange Margin Trading in Japan: An Analysis from the Developments in 2022," Bank of Japan Review, 2023-E-7.

[6] In April, a global trend of holding back on foreign direct investment like cross-border M&A was observed, and this likely contributed to a decline in FX transactions related to capital flows, which in turn contributed to a reduction in transactions with non-financial customers. Additionally, in Japan, where many corporate participants close their fiscal year in March, April marks the beginning of a new fiscal year. During this period, corporate participants had enough time to implement FX transactions under their new fiscal-year budgets. Amid the significant fluctuations in the FX market, there were also indications that businesses were inclined to adopt a wait-and-see approach.

[7] It is important to note that the turnover of each country's market also includes transactions executed outside that market's major trading hours. For example, even if a dealer working in Japan conducts trades during late-night hours in Japanese time, those trades will be recorded as part of Japan's turnover.

[8] Onishi, Hirai, Aruga, and Bessho (2025), "Electronic Foreign Exchange Trading (e-FX): Developments in and implications for the Tokyo FX Market," Bank of Japan Review, 2025-E-4.

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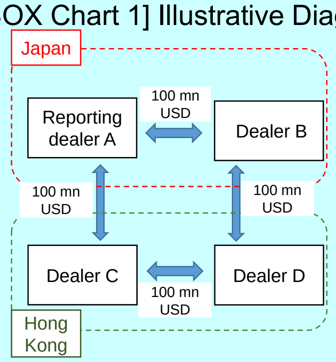
BOX: The aggregation method in the BIS Triennial Survey and the interrelationship between local markets

The BIS Triennial Survey collects data on FX turnover based on location. Specifically, reporting dealers in a given jurisdiction (country or region) report the turnover during the survey period to the central banks of that jurisdiction (in Japan's case, Bank of Japan). These central banks then aggregate the data and submit the results to the BIS. The BIS compiles and publishes global FX turnover statistics based on these submissions. Since transactions between reporting dealers are included in each jurisdiction's reported data, simply summing up the data will result in double counting.

For global FX turnover, transactions between reporting dealers are adjusted to avoid double counting by dividing the reported data by two (net), regardless of whether the transactions occur within the same market ("local transactions") or across markets ("cross-border transactions"). Since both local and cross-border transactions are netted to adjust for double counting (net), the BIS Triennial Survey refers to this as a "net-net basis."

On the other hand, for transactions based on individual jurisdictions ("local markets") such as Japan's or Hong Kong's FX market, the turnover in each local market is calculated as follows. For transactions between reporting dealers that are classified as local transactions, the reported data are divided by two (net) to adjust for double counting. In contrast, cross-border transactions are reported as original (gross), as they do not lead to double counting when considered on a jurisdictional basis. Since local transactions are adjusted for double counting (net), while cross-border transactions are reported as original (gross), the BIS Triennial Survey refers to this method as a "net-gross basis" (BOX Chart 1). The BIS Triennial Survey also publishes global FX turnover on a net-gross basis, which exceeds the net-net basis data by approximately 30% (BOX Chart 2). Notably, the three major Asian markets (Japan, Singapore, and Hong Kong), which operate during overlapping trading hours, have a higher proportion of transactions with reporting dealers from overseas compared to London's market (European trading hours) and New York's market (U.S. trading hours) (BOX Chart 3). It is important to monitor trends in FX turnover in the Tokyo FX market considering these characteristics of the BIS Triennial Survey's aggregation methodology.

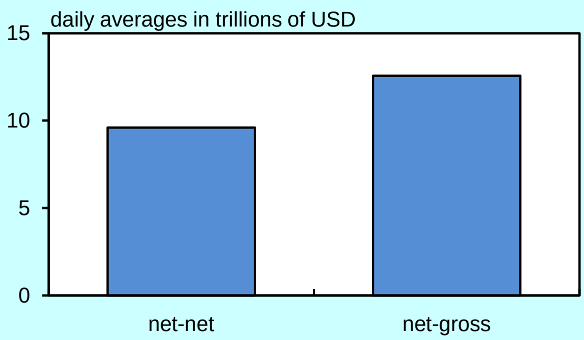
[BOX Chart 1] Illustrative Diagram of the Aggregation Method for Global and Local Market Turnover



		A	B	C	D	Total	Aggregation method
Global	Local transaction	100 mn	100 mn	100 mn	100 mn	(100+100+100+100)/2=200 mn	net
	Cross-border transaction	100 mn	100 mn	100 mn	100 mn	(100+100+100+100)/2=200 mn	net
	Total	200 mn	200 mn	200 mn	200 mn	200+200=400 mn	net-net

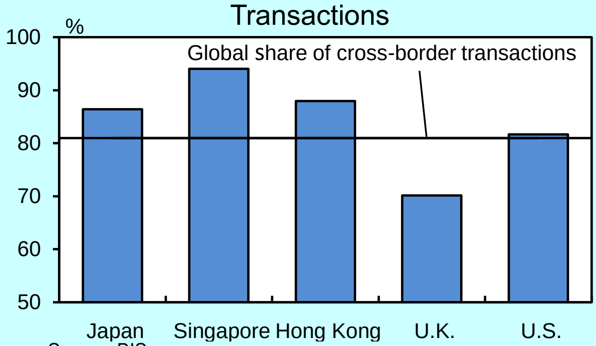
		A	B	Total	Aggregation method
Local markets (Japan/ Hong Kong)	Local transaction	100 mn	100 mn	(100+100)/2=100 mn	net
	Cross-border transaction	100 mn	100 mn	100+100=200 mn	gross
	Total	200 mn	200 mn	100+200=300 mn	net-gross

[BOX Chart 2] Global FX turnover



Source: BIS.
Note: Based on the latest survey.

[BOX Chart 3] Proportion of Cross-Border Transactions



Source: BIS.
Note: Based on the latest survey. The proportion of transactions between reporting dealers.