

On the Geographical Dispersion of Euro Currency Trading: An Analysis of the First 20 Years and a Comparison to the RMB

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November 2021

Summary

The Euro and the RMB are both relatively new currencies traded on the global foreign exchange market. While the Euro was introduced in 2001, China started cross-border settlement in RMB in 2009. In this paper, we analyse the evolution of Euro-trading based on data from the BIS triennial survey and compare the patterns to the experience of RMB internationalization, as well as to other commonly traded currencies. We find that – similar to the RMB – Euro trading displayed some convergence to the geographical pattern of all currencies in the first years of its existence. Thereafter, the convergence process appears to have come to halt. Instead, the size of the respective offshore financial centre is the main determinant of Euro currency trading. This is reminiscent of more established currencies, like the US Dollar, the British Pound, or the Swiss Franc.

We document that the determinants of Euro trading include links to offshore trading centres, economic and institutional characteristics, but these turn out to be rather unstable over time. Another factor is the relative share of Euros traded in the respective market. If the Euro is

underrepresented relative to other markets, the convergence is visible also in more recent periods. If it is overrepresented, there is no significant convergence effect. The convergence from below phenomenon illustrates that the geographical dispersion of the Euro continues in some markets, although it is not a general feature of the data. Finally, we compare the experience of Euro to the previous D-Mark period. These results help to interpret the evidence on initial convergence as a rebound-effect from a decline in the international use of the D-Mark during the 1990s.