

Was Forex Fixing Fixed?

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“Fixing” of the exchange rate (price) is a rule among the Forex market participating institutions to set a reference/settlement price of the day. Major fixings occur at 9:55 Tokyo time for transactions between Japanese banks and their customers; and at 4PM London time for transactions between European and US banks and their customers. The two fixings have different regulation and institutions. The London fix is calculated as an average price during the one minute window around 4PM. We empirically examine the movement of prices around the time of fixing. Regulators in the UK and the US accuse banks for collusive behaviors to manipulate the price at around the London fixing time. It has been mentioned in the media that there was evidence of “chats” among traders of different institutions for collusion. But, is there an evidence in price behavior? We found little evidence of sudden up and down of the (or spike) at around the fixing time. In fact, liquidity provision at the fixing time is larger than other times, which makes the price impact of any trade smaller. The large movement of price is more likely during the times of U.S. macro announcement and New York Forex option cut. At the Tokyo fixing, however, financial institutions can fix the price by themselves based on the market price. Although the market provides deep liquidity at the Tokyo fixing as well, such financial institution had announced price more favorable for banks until 2008. Such deviation of fixing price from the market price might be related to the settlement needs by importers, and banks wanted to reduce risk of being caught in dollar shortage later in the day.

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