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Market Risk

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[Bank for International Settlements](#)

BIS: Goodbye Libor, Hello Basis Traders – Unpacking the Surge in Global Interest Rate Derivatives Turnover

- Between 2022 and 2025, global daily turnover in **interest rate derivatives** (IRDs) surged 87% to \$25 trillion, driven by both structural reforms and cyclical shifts in monetary policy. Over-the-counter (OTC) markets reached \$7.9 trillion daily, while exchange-traded derivatives (XTD) climbed to \$17.4 trillion. This growth reflects **three primary dynamics**: the benchmark interest rate reform, increased use of cash-futures basis trades by hedge funds and heightened rate volatility following central bank tightening cycles.
- The **cessation of Libor and the transition to nearly risk-free rates** (RFRs) have transformed OTC IRD markets. Overnight index swaps (OIS), which align with RFRs, now dominate, accounting for 65% of global OTC IRD turnover by 2025 - up from 42% in 2022. FRA usage, conversely, declined sharply due to incompatibility with backward-looking RFRs. Jurisdictions with dual benchmark regimes (e.g., euro area, Australia, Singapore) have experienced more gradual transitions, with Euribor and other reformed IBORs still supporting credit-sensitive instruments.
- XTD markets have expanded significantly, especially due to **the rise of the cash-futures basis trade**. Hedge funds now engage heavily in arbitraging spreads between government bonds and their futures, leading to record short futures positions - particularly in U.S. Treasury markets. While these strategies enhance liquidity, they introduce systemic risk if trades unwind rapidly under stress. Additionally, swap spread trades have emerged as another prominent hedge fund strategy, contributing to increased leverage and market sensitivity.
- **Monetary policy shifts** since 2022 - especially in the U.S., euro area, and Japan - have further boosted turnover. Rising short-term rates spurred demand for hedging and speculation in short-term IRDs, notably money market futures and OIS.