

Data Set Abstract

The paper uses four different data sets, which distinguish between the customer trades and inter-dealer trades. Customer trades amount to approximately 20 percent of the volume in the forex market. Transaction data in this market segment is generally not available. In order to access transaction costs we resort to quotes disseminated through Reuters quote system. Dealers use the Reuters indicative quote system to advertise their quotes to forex customers. The prices quoted are generally inferior to those that result from inter-dealer trades. In the absence of customer transaction data, the Reuters quote data is the best available information source. Reuters quoted data is also available at relatively high frequency. We obtained the best buy and sell quote in 5 different currency rates at every full hour for 12 months prior and 8 month posterior to the euro introduction. Inter-dealer trades amount to 80 percent of all spot transactions, of which in 1998 approximately 50 percent are direct trades and 50 percent are (electronically) brokered trades. Reuters and EBS dealing systems share the market for electronically brokered trades. EBS transaction price data is therefore based on a market segment that presents about 20 percent of the total spot volume. For the two months of August 1998 and August 1999, EBS data was made available to us as the last executed buy and sell price at each full hour and we calculated an hourly transaction spread as the percentage difference of the buy and sell price. The hourly transaction spreads are averaged over the 24 hours and used as a daily transaction cost series for each of the 5 currency pairs listed in Table 2. The EBS transaction spreads data allows a valuable crosscheck of the transaction cost pattern in the Reuters data. Evidence on transaction volume is again based on the inter-dealer trading system EBS. The volume data consists of monthly averages of daily transaction volumes in 8 currency pairs and covers 12 pre-euro and 12 post-euro months. For the most important currency pair, the USD/DEM-EUR rate, we obtained additional and more detailed transaction data. EBS provided daily data of the number of buy and sell orders as well as the cash value of daily buy and sell order quantities for the 24-month period from January 5, 1998 to December 31, 1999. This allows us to calculate the average transaction size in the inter-dealer market before and after the euro introduction.