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The Emerging Trends in International Market Currency

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Abstract

A critical component of the global financial system, "the foreign exchange (FX) market" is also a significant contributor to the economy. This article reviews the many studies on international market currency trends that have been conducted. Research on international market currency reveals that the United States, United Kingdom, China, India, and Germany are leading contributors. Key trends highlight the shift from traditional financial operations to digital innovations, with keywords such as blockchain, financial transaction tax, smart contracts, and cybersecurity dominating the discourse. Seven distinct research clusters show a growing focus on the digital transformation of financial services. The integration of mathematics, Big Data, and digital tools reflects a response to globalization's complexities. This evolving landscape underscores the need for adaptive financial methodologies to address emerging challenges in global financial transactions and currency markets.

Keywords; Foreign exchange (FX) market, International Market Currency, Digital innovations, Big Data, Digital Tools.

INTRODUCTION

The economy is significantly influenced by "the foreign exchange (FX) market", which is a critical component of the global financial system. It is essential for maintaining arbitrage conditions and efficiency in the majority of other global financial markets, such as the stock, bond, and derivatives markets. In many nations throughout the globe, central banks' missions and activities revolve upon a thorough grasp of the pricing processes of the foreign exchange market, which have an impact on inflation, resource utilisation, and financial conditions [1]. Monetary policy and financial stability depend on the Riksbank, an inflation-targeting "central bank in a small open economy", comprehending the dynamics and underlying principles of the krona exchange rate as well as the changing structure of the FX market [2].

Significant structural developments have occurred in the FX market during the last forty years. Since the 1970s, when "floating exchange rate regimes" were introduced, currency trading has evolved from a slow-moving, opaque, and obviously two-tiered market to the fast-paced, linked, but fragmented market it is today, with an increasing number of trading venues and players [3]. To a greater extent, price discovery and trade execution—that is, the procedure by which deals are completed—occur automatically and electronically. This has led to the emergence of new market players, trading tactics, and instruments that have an impact on how the market operates and how exchange rates are determined. Additionally, academics and practitioners now have access to vast volumes of data, although scattered across various platforms and not uniformly, thanks to technology advancements and greater competition among trading venues.

Exchange rate swings themselves are sometimes hard to foresee and much impossible to explain, except from changes in the FX market's structure. A common premise of conventional macroeconomic theory is that exchange rates are fixed at a price that balances the returns on investments in local and foreign assets.

These models specifically depend on "the so-called uncovered interest rate parity (UIP) condition", which states that the interest rate difference between the two currencies in issue determines the projected change in the exchange rate. In particular, the amount of the interest rate disparity is projected to be depreciated by the currency with the higher interest rate [4].

International Currency Markets

In the international currency market, numerous currencies are purchased and sold by participants from around the globe. Investors, banks, businesses, central banks, hedge funds, investment management companies, and retail forex brokers are among the participants. Because it facilitates foreign transactions such as corporate acquisitions, investments, loans, and international commerce, the international currency market is significant [5].

Working of International Currency Markets

At $5 trillion in trade volume each day on average, "the international currency market" is the world's biggest financial market. Transactions in this market take place via a worldwide computer network of major banks and brokers from all over the globe, rather than on a single exchange [6].

The currency market, often known as the foreign exchange market or forex, was established to make it easier to convert currencies that are required due to international commerce. For instance, when a Canadian business sold an item to a U.S. corporation, the Canadian business will seek payment in Canadian dollars. Paying the Canadian business would need the U.S. Corporation to help with a foreign currency conversion via its bank. U.S. dollars would be deducted from the U.S. Company's bank account. The money would be moved from the U.S. bank to the bank of the Canadian business. "The Canadian company's account" would be credited with the convertion of the funds to Canadian dollars at a predetermined exchange rate [7].

Companies may sell their products worldwide and get payment in their local currency thanks to the global currency market, which facilitates international commerce. Since their expenditures, such wages, are in their native currency, businesses must be paid in that currency.

In contrast to the stock market, the FX market does not employ a clearinghouse. In order to guarantee that each party fulfils its responsibilities, transactions take place directly between the parties. Currencies are valued in relation to other currencies rather than having a fixed price [8].

Key Participants in the Forex Market

The foreign currency market used to be controlled by governments, hedge funds, and large corporations. Retail investors now have a lot simpler time trading currencies. The following are the main market participants:

- **Commercial banks:** The foundation of the foreign exchange market, banks provide a great deal of liquidity. For their customers, they speculate and hedge via trading.
- **Corporations:** The currency market is used by every corporation that does business abroad, sometimes on a daily basis.
- **Central banks:** A nation's money supply and economy are handled by its central bank. Changing the value of the national currency is one aspect of it.
- **Hedge funds:** Future exchange rate speculation is common among hedge funds. Specific funds are even allocated to currency.
- **Money transfer companies:** Alternative businesses engaged in currency exchange have emerged throughout the last ten or so years. In order to access the vast market of overseas workers who earn in several currencies and transfer money home, many provide more favourable conversion rates than banks.

Trends in the International Currency Market

Growth in Market Size: Between 2024 and 2029, the size of the foreign exchange market is expected to rise USD 582 billion at a CAGR of 10.6%. Driven by the worldwide trend of rising urbanisation and the 24x7 trade possibilities it presents, the market is seeing notable increase. Thanks to flawless international transactions made possible by digitalisation of financial services, foreign currency is more easily available than before. An important trend is the growing utilisation of "mutual funds, venture capital investments, and money transfer agencies" in foreign exchange transactions. This market has difficulties, however [9].

Digitalization: The digitisation of financial services has made cross-border transactions simple, making foreign exchange more convenient and accessible. Digitalisation is catalysing a revolution in "the foreign exchange (FX)" industry, which also enhances the efficacy, accessibility, and

transparency of international currency trading. Artificial intelligence and blockchain technology enable faster and more economical transactions that impact everything from cross-border payments to risk management [10].

Urbanization and Cross-Border Trade: Growing urbanisation and global market integration are driving need for efficient FX systems. Urbanisation and cross-border trade interact to influence foreign exchange in a variety of ways. Urban regions, which are often hubs of trade and economic activity, increase the supply of foreign currencies by attracting more "foreign direct investment (FDI)" and producing more foreign currency via exports. At the same time, urbanisation increases demand for goods and services that are imported, which may increase the requirement for foreign currency [11].

Rise of Money Transfer Agencies and Other Instruments: The expanding number of cross-border transactions, the migratory population, digitisation and mobile remittances, and the demand for quick, safe, and affordable transfer services are the main factors propelling the global money transfer companies' operations. Potential expansion and acquisition opportunities include breaking into untapped areas, tailoring goods to specific customers—such as small enterprises and low-income immigrants—and using cutting-edge technology such "blockchain and artificial intelligence" to reduce expenses and increase productivity. According to recent market trends, the expansion of digital and mobile remittances is expected to continue as more companies offer "convenient and reasonably priced online methods for sending and receiving money globally". Additionally, there has been a greater effort by "money transfer firms and other financial institutions" to provide consumers integrated financial services [12].

Impact of Central Bank Policies and Economic Events: Changes in inflation, political events, and "central bank interest rates" may all have a significant impact on exchange rates. Central banks are responsible for establishing monetary policies that aim to achieve several economic objectives, including "price stability, full employment, and economic growth". These policies primarily address managing interest rates, controlling the money supply, and using currencies to intervene in the market as necessary [13].

LITERATURE REVIEW

(Ahmed et al., 2024) [14] The COVID-19 pandemic and the conflict between Russia and Ukraine are two significant current crises that are compared in this essay. The latter is distinguished by higher inflation and a lack of clarity in economic policy. Furthermore, during the COVID-19 and Russia-Ukraine conflict crises, developed economies were more vulnerable to contagion, as shown by "the Systemic Contagion Index" we created. This highlights the fragility of developed nations' currency networks during turbulent periods. Investors and multinational corporations may benefit greatly from this study's insightful recommendations on evaluating currency susceptibility and improving their risk-hedging and risk-management tactics in the face of volatile markets, particularly during periods of high inflation.

(Ghanem et al., 2024) [15] Results from technical analysis have been inconsistent in "the foreign exchange (Forex) market", especially when it comes to how well it works for swing trading over varying holding durations. The findings suggest that both developed and developing market currencies' price movements may be largely predicted by technical trading rules, with emerging markets exhibiting greater degrees of predictability. It is noteworthy that oscillator-based methods work better in developed markets, whilst "simple moving average (SMA) indicators" work best for currencies in developing economies. These results provide useful insights for trade timing optimisation, making them applicable to Forex traders using short-term methods. In addition, the investigation provides new opportunities for future research to explore the role of technical analysis in "improving trading performance in global currency markets".

(El-Diftar, 2023) [16] Studying the correlation between exchange rate swings and stock market performance in the top seven emerging economies (E7) is the aim of this study. For every country, the results confirm that there is a cointegration connection between the variables. In every country save Indonesia, where there was a notable negative influence, the data show a strong positive long-term relationship among "exchange rates and stock market performance". The addition of the exchange rate to the model explains a little shift in stock return volatility, according to the GARCH (1,1) findings. The study's findings should help policymaker’s better grasp how much exchange rate variations can affect capital markets and close the gap in the literature over which hypothesis best explains how exchange rate fluctuations affect market prices.

(Ranaldo & de Magistris, 2022) [17] By examining the effect of trade volume on prices, we investigate "the liquidity of the global currency market". We establish a refined version of the well-known Amihud (2002) illiquidity

measure, which we term realised Amihud, which is the ratio of realised volatility to trading volume, and analyse ten years' worth of CLS intraday data that is indicative of worldwide foreign currency (FX) trade. Price effect is inversely correlated with market depth and rises with transaction costs, risk aversion, money market stress, and uncertainty. Furthermore, by examining breaches of the "triangular" no-arbitrage requirement, we examine if and how liquidity leads to price efficiency. Price efficiency is supported by the fact that dollar-based currencies have a less trade effect.

(Rehman et al., 2022) [18] The directionality of currency rate prediction in developing economies is examined in this research. At lag 1, the structural connections between the exchange rate pairings become apparent, and at greater delays, the linkages break down. Second, the findings of the partial cross-quantilogram show that oil does not influence the interrelationships between the exchange rates. Additionally, time-variant characteristics are shown by estimating cross-quantile correlations from iterative subsamples. Policymakers and financial regulators can create a surveillance system to modify "the market interdependence effects across emerging market foreign exchange rates" if they concentrate on comovements among emerging market currencies and differentiate between net recipients and net transmitters in various environments. Thus, they have the potential to enhance the stability of currencies from emerging markets.

(Abad-Segura & González-Zamar, 2020) [19] Financial difficulties have traditionally been resolved by the use of financial mathematics. As a result of globalisation, financial transactions need novel analysis using statistical, probability, and economic theory methods. Mainly in the past decade, the findings indicate an upward trajectory. "The Indian Institute of Management" Rohtak's Khare is the author with the most articles. The British University of Oxford is the most active affiliate. The United States is the nation with the greatest number of international partnerships and scholarly publications. The terms "financial management," "financial transaction tax," "banking," "financial service," "blockchain," "decision making," and "financial market" are also often used in publications. The expanding tendency in financial transaction research is confirmed by the rise in international publications in recent years.

(Kumar, 2019) [20] The study's foundation is the examination of how changes in foreign exchange rates affected the prices of stocks in the NSE Nifty index between April 2005 and March 2015 utilising data on the NSE Nifty's monthly closing price and the nominal exchange rates between Indian rupee and US dollars. Since the US dollar is regarded as a powerful currency for international commerce, the exchange rate between Indian and US dollars has been taken into consideration for the study project. To examine the movement of both series, statistical tests are used. The goal of the study is to use the Unit-root and Johnson cointegration tests to examine how changes in foreign exchange rates affect the stock market index. The research also looks at how the two time series relate to one another. The result indicates that the exchange rate and "the NSE Niftystock Market Index" do not cointegrate.

(Lakshmi, 2019) [21] In order to quickly analyse deficits and surpluses, an international monetary system needs an "efficient balance of payments adjustment mechanism". At the start of World War I, this system went bankrupt, and when the exchange rate started to be used in 1920, Britain attempted to bring the gold standard back by taking its par value. At the time, the greatest gold deposits were in the United States. In the early 1970s, when the countries were in need of gold to exchange for the dollars they held, Nixon was not prepared to do so and separated the dollar from gold. The dollar was already the most widely used reserve currency in the world at this point. But stagflation resulted from separating the currency from its gold-based value. That's a mix of stagnating growth and inflation. As a result, several nations were prepared to remove the dollar as a determining factor in international commerce. This essay attempts to explain how the dollar has evolved into a worldwide money and the current shifts in the perception of the US dollar as an international currency.

CONCLUSION

In conclusion, the emerging trends in international market currency reflect a dynamic shift driven by digital transformation, globalization, and technological innovation. Leading contributors to this research—namely the United States, United Kingdom, China, India, and Germany—have focused on key themes such as financial management, financial transaction tax, and blockchain. Keyword analysis reveals seven distinct thematic clusters, emphasizing areas like smart contracts, microfinance, money laundering, and economic crises. These clusters highlight the evolving complexity of financial transactions in a digitized world. The integration of advanced tools like cybersecurity, Big Data, and digital assistants into financial research marks a significant progression from traditional financial practices to innovative solutions tailored for modern challenges.

Financial mathematics is playing a crucial role by adapting its methodologies to address the increasing intricacies of global financial systems. This trend signifies a clear move toward a more interconnected, secure, and data-driven financial environment. As digital technologies continue to reshape financial services, future research must explore these intersections to ensure efficient, transparent, and resilient financial systems across global markets. The evolution of research demonstrates that adapting to these changes is essential for navigating the future of international finance successfully.

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