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ANATOMY OF A GEOPOLITICAL SHOCK: THE DERIVATIVES MARKET AS A SYSTEMIC SHOCK ABSORBER

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ABSTRACT

This study investigates the structural shifts and volume dynamics within the over-the-counter (OTC) derivatives market following the acute geopolitical shock of March 1st. The escalation of military conflict involving the United States and Iran, characterized by the targeted bombing of strategic infrastructure and the subsequent closure of the Strait of Hormuz, catalyzed a precipitous surge in crude oil prices to the USD 110–140 per barrel range. Utilizing a quantitative comparative analysis of Commodity Futures Trading Commission (CFTC) weekly swap dollar volume data, this research evaluates market behavior from the pre-shock baseline of February 13 to the post-shock environment of March 13. The methodology prioritizes market-facing trades to isolate organic demand, distinguishing between cleared and uncleared transactions across interest rate, credit, and foreign exchange (FX) asset classes. The core finding reveals a 42% increase in total swap dollar volume, rising from USD 31.5 trillion to USD 44.8 trillion. This expansion was driven by intensive risk hedging and a systemic "flight to safety" as participants navigated heightened inflation expectations and the pro-cyclicality of margin requirements. Credit Default Swap (CDS) volumes more than doubled, reflecting acute concerns regarding corporate and sovereign default contagion. While Interest Rate Swaps exhibited a significant migration toward central clearing to mitigate counterparty risk, FX swaps remained predominantly uncleared, highlighting a persistent strategic preference for bilateral flexibility and immediate liquidity during periods of rapid currency volatility. This

analysis concludes that the derivatives market functions as a critical shock absorber, though resilience is increasingly dictated by the interplay of regulatory mandates and bespoke liquidity needs.

Keywords: Geopolitical Risk, Swaps, Derivatives Market.

1.0 INTRODUCTION

In the architecture of modern global finance, the derivatives market serves as the primary "shock absorber" during systemic crises, facilitating the redistribution and pricing of risk when traditional cash markets experience dislocations. By allowing participants to stabilize cash flows amid exogenous shocks, these instruments act as a vital stabilizing force (Hamilton, 2018). The strategic importance of this function is magnified during geopolitical disruptions that threaten macroeconomic stability, such as the March 1st military escalation between the U.S. and Iran. The closure of the Strait of Hormuz, a critical maritime chokepoint, precipitated an oil price spike to USD 140/bbl, presenting a grave threat to global energy security (Ramadhani & Marzaman, 2024). The transmission mechanism through which military conflict transitions into financial volatility is multifaceted, primarily involving the immediate repricing of inflation expectations and a sharp rise in term premia (Herrera & Rangaraju, 2020). As energy-driven inflation feeds into global supply chains, market participants face a "convexity of hedging demand," where the need for protection increases exponentially with price volatility (Chatziantoniou, Gabauer & Stenfors, 2021). Such instability necessitates a formal investigation into swap volume metrics to determine how the market's infrastructure—specifically the dichotomy between cleared and uncleared structures—manages the resultant counterparty risk and liquidity stress (Di Luigi, Perrella & Ruggieri, 2024).

2.0 GENERAL OBJECTIVE

To analyze the effects of geopolitical instability on cleared and uncleared swap volumes by conducting a quantitative comparative analysis of Commodity Futures Trading Commission CFTC dollar volume data between February 13 and March 13, for the purpose of determining how extreme geopolitical risk influences derivative market behavior, participant risk aversion, and counterparty management strategies.

3.0 SPECIFIC OBJECTIVES

First, to establish a sophisticated theoretical framework that contextualizes the strategic role of key derivative and operational terms within high-volatility regimes. Next, to analyze quantitative trends in CFTC swap data, identifying the specific percentage shifts in dollar volume across interest rate, credit, and FX asset classes post-shock. Next, to evaluate the cleared vs. uncleared dichotomy to determine the extent of the "flight to safety" toward central clearinghouses versus the retention of bilateral flexibility. And finally, to synthesize these

findings into high-level risk management conclusions regarding the derivatives market's capacity to internalize systemic geopolitical shocks.

4.0 THEORETICAL FRAMEWORK

In periods of extreme stress, the nuances of contract structures in derivatives markets determine the speed and effectiveness of risk redistribution. To develop this understanding, a robust conceptual vocabulary is essential for interpreting market movements during a crisis. Therefore, the following section will outline key strategic concepts in derivatives swap markets in terms of operational mechanisms and market structure, risk and clearing concepts, and asset categories and hedging (Boyle & McDougall, 2018; Gottesman, 2016; Witzany, 2020).

4.1 Operational Mechanisms and Market Structure

Swap Market: The venue for risk transfer, encompassing OTC and exchange-traded environments. Its strategic role is to provide a hub for continuous price discovery when geopolitical shocks freeze primary markets.

Asset Class: Categorization based on underlying characteristics (Interest Rate, Credit, FX). Strategic classification dictates regulatory "capital buckets" and risk-weighted asset (RWA) charges during liquidity crunches.

Swap Volume: The total monetary value of swaps executed. It serves as a vital barometer for organic market-facing activity and the intensity of the hedging response to the Iran conflict.

Notional Value: The face value used to calculate cash flows. Strategically, it represents the "magnitude of exposure" that must be managed to prevent systemic insolvency.

Financial Instrument: Individual contracts within the market; their specific characteristics influence their efficacy as tactical hedging tools during rapid price adjustments.

Tenor: The time until maturity. In a crisis, shorter tenors are strategically favored for liquidity, while long-tenor swaps face higher "gap risk" and require greater counterparty confidence.

Compression: The process of offsetting contracts to reduce gross notionals. Strategically, it frees up credit lines and reduces leverage ratio burdens during periods of extreme volatility, although it is excluded from volume reports to show pure market demand.

Termination: Early closing of a swap. Strategically used to exit positions when the underlying geopolitical thesis (e.g., oil price range) shifts faster than the contract's maturity.

Amendment: Altering contract terms. Strategically vital for recalibrating hedges as new information regarding the Strait of Hormuz closure emerges.

Novation: Substituting a counterparty. Strategically, this allows the transfer of risk to a higher-quality entity, such as a clearinghouse, when idiosyncratic bank risk surges.

Regulatory Framework: The rules (Dodd-Frank, EMIR) that mandate clearing. Strategically, these ensure that systemic "circuit breakers" exist to prevent a total freeze of the financial system during military conflicts.

4.2 Risk and Clearing Concepts

Cleared: Swaps routed through a central intermediary. Strategically, clearing is a defensive posture used to ensure standardized settlement when bilateral trust erodes.

Uncleared: Bilateral agreements. These are strategically utilized for bespoke exposures that clearinghouses cannot standardize, particularly for complex corporate hedges.

Counterparty Risk: The risk that a partner defaults. Strategically, this is the primary variable that dictates whether a participant chooses to clear a trade during a crisis.

Central Clearinghouse (CCP): The intermediary guaranteeing trades. Strategically, CCPs provide "multilateral netting" which is essential for preserving market liquidity when oil prices hit $140/bbl.

Bilateral Trading: Direct execution between parties. It remains strategically relevant for its speed and lack of rigid margin requirements in the initial minutes of a market shock-

Market Liquidity: The ease of trading. Strategically, liquidity is the "lifeblood" of the swap market, and its preservation is the ultimate goal of central clearing mandates.

4.3 Asset Categories and Hedging

Interest Rate Swaps (IRS): Exchanging fixed-for-floating payments. Strategically used to manage the "duration risk" that fluctuates wildly as inflation expectations surge.

Total Interest Rate: The aggregate IRS volume, reflecting the market's collective attempt to lock in funding costs amid war-driven uncertainty.

Credit Swaps / Credit Default Swap (CDS): Protection against default. Strategically, CDS is the "insurance policy" of the financial world, spiking when energy-driven inflation threatens firm solvency.

Total Credit: The aggregate CDS volume, which measures the market's perception of systemic default contagion.

FX Swaps: Exchanging principal/interest in different currencies. Strategically essential for maintaining USD funding when global trade routes are disrupted.

Total FX: Cumulative currency trade volume, representing the search for "safe haven" liquidity in the USD-

Derivatives: The broad category of contracts. Strategically, they are the primary tools for "unbundling" risk from the underlying assets during periods of war.

Hedge: Mitigating potential losses. Strategically, hedging is the defensive maneuver that drives the 42% volume spike observed in this study.

Risk Management: The systematic identification of exposure. Strategically, this discipline becomes the central priority for all C-suite executives during geopolitical conflicto.

Volatility: A measure of price fluctuations. Strategically, it dictates the "cost of protection" in the swap market; higher volatility increases the necessity of swaps.

Foreign Exchange Risk: Risk from currency shifts. Strategically managed through FX swaps to prevent "margin of safety" erosion for multinational firms.

Next, the strategic mandate of risk management will be addressed, analyzing how volatility in economic and financial environments demands an increasingly strategic approach to risk management, capable of anticipating uncertain scenarios and strengthening decision-making within organizations.

5.0 THEORETICAL FOUNDATIONS OF SWAP MARKET RESILIENCE AND RISK REDISTRIBUTION IN GEOPOLITICAL CRISES

5.1 The Strategic Role of Derivatives in Market Stress

In the volatile landscape of global finance, a robust conceptual vocabulary constitutes the operational sine qua non for interpreting market movements during geopolitical shocks. When traditional cash markets experience extreme structural stress, the nuances of contract architecture emerge as the primary determinant for the speed and efficacy of risk redistribution (Zhao, 2017). This analysis posits that the swap market functions not merely as a secondary layer of financial activity, but as a strategic "hub" for continuous price discovery when primary markets are frozen by conflict (Spagna, 2018). This centralizing role is critical; as liquidity in underlying assets evaporates, the derivatives ecosystem provides a sophisticated venue where risk can be decoupled and transferred, maintaining systemic stability even as traditional pricing mechanisms fail. Understanding these dynamics necessitates a transition from observing derivatives as abstract instruments to recognizing them as the fundamental infrastructure that sustains the global financial order (Appadurai, 2020).

5.2 The Architecture of Market Operations and Strategic Metrics

The resilience of the global financial system during a liquidity crunch is predicated on the strategic categorization of market operations. These classifications are far from academic formalities; they dictate regulatory capital requirements and risk-weighted asset (RWA) charges, which serve as the primary constraints on institutional behavior during periods of contraction (Tams, Schill & Hofmann, 2017).

5.3 Volume and Notional Value as Strategic Barometers

In assessing market health, "Swap Volume"—the total monetary value of executed contracts—serves as a vital barometer for organic market-facing activity. During periods of heightened geopolitical tension, such as the Iran conflict during 2026, volume spikes do not necessarily signal speculative fervor but rather the intensity of the flight to liquidity and the urgency of the hedging response. Conversely, "Notional Value" represents the strategic "magnitude of exposure" (Gadzinski, Schuller & Vacchino, 2018). However, these metrics lies in their divergence: while notional value reflects the gross scale of risk that must be neutralized to prevent systemic insolvency, it is a misleading indicator of actual risk compared to net exposure. The critical challenge for market participants is managing this gross-to-net relationship to ensure that localized shocks do not cascade into broader institutional collapses (Geyer-Klingeberg, Hang & Rathgeber, 2021).

5.4 The Strategic Impact of Maturity and Tenor

The timeframe of a contract, or "Tenor," undergoes a significant strategic shift in crisis environments. During liquidity crunches, market participants exhibit a decisive preference for shorter tenors to preserve tactical flexibility. Long-tenor swaps become significantly more precarious due to "gap risk," necessitating a higher threshold of counterparty confidence that is often unavailable in a fragmenting geopolitical landscape (Chang & Schlögl, 2015). As the deterioration of the geopolitical environment—evidenced by escalations in the Strait of Hormuz—erodes this confidence, the metrics of activity and time-horizon force a shift from static observation to active, defensive contractual modification.

5.5 Contractual Adaptability: Strategic Adjustments and Portfolio Optimization

Contracts within the swap market are dynamic financial instruments, strategically recalibrated to accommodate evolving geopolitical conditions and the imperatives of institutional resilience, thereby ensuring that market participants can effectively manage risk and maintain operational continuity (Rodrigues Coelho, Bizarrias, Rabechini Jr., Martens, & Martens, 2025).

5.6 Compression, Amendment, and Termination

Portfolio optimization frequently relies on "Compression," a process of offsetting contracts to reduce gross notionals. Beyond simple bookkeeping, compression acts as a systemic stabilizer by reducing the gross-to-net ratio in the global financial system, thereby freeing up critical credit lines and mitigating the risk of cascading margin calls during extreme volatility (D'Errico & Roukny, 2021). When the underlying geopolitical thesis—such as a specific oil price range—is rendered obsolete by rapid escalations, "Termination" facilitates an early exit. Furthermore, "Amendment" is strategically vital for recalibrating hedges as new information emerges regarding potential disruptions, such as in the Strait of Hormuz, ensuring that the protection remains aligned with the evolving threat profile (Benos, Huang, Menkveld & Vasios, 2024).

5.7 Novation as a Risk Transfer Mechanism

When idiosyncratic bank risk surges, the process of "Novation"—substituting one counterparty for another—serves as the primary mechanism for risk transfer. The strategic logic behind novation is the insulation of the contract by transferring exposure to a higher-quality entity or a central clearinghouse (Peirce, 2015). This maneuver ensures that even if an individual institution falters under the weight of a geopolitical shock, the contract remains viable within a more secure institutional framework, preventing a localized default from infecting the broader network (Bomfim, 2015).

5.8 Institutional Architecture: Clearing, Regulation, and Counterparty Dynamics

The strategic management of individual contracts is supported by a broader institutional architecture where regulatory frameworks, such as Dodd-Frank and EMIR or European Market Infrastructure Regulation, function as "systemic circuit breakers" (Armour, Awrey, Davies, Enriques, Gordon, Mayer & Payne, 2016). Mechanically, these regulations prevent the erosion of bilateral trust from devolving into a solvency crisis by mandating a shift from opaque private agreements to transparent, cleared environments.

5.9 The Central Clearinghouse (CCP) vs. Bilateral Trading

The choice between "Cleared" and "Uncleared" swaps represents a fundamental strategic trade-off. Central Clearinghouses (CCPs) provide "multilateral netting," a mechanism essential for preserving market liquidity when extreme price shocks—such as oil reaching $140/bbl—test the limits of individual bank balance sheets (Lupo-Pasini & Buckley, 2015). However, "Bilateral Trading" maintains its strategic relevance as the venue for bespoke exposures that clearinghouses cannot standardize, particularly for complex corporate hedges (Biffis, Blake, Pitotti & Sun, 2016). Furthermore, bilateral execution is favored for its speed and the absence of rigid margin requirements during the initial, chaotic minutes of a market shock when every second of delay represents unhedged exposure (Zeddouk, & Devolder, 2019).

5.10 Counterparty Risk and Liquidity Preservation

"Market Liquidity" constitutes the lifeblood of the swap market, and its preservation is the ultimate objective of the regulatory mandate (Chen & Zhao, 2019). "Counterparty Risk"—the danger of a partner defaulting—is the primary variable that dictates the defensive posture of participants. In a crisis, the perception of this risk determines whether a participant seeks the standardized safety of a cleared environment or the specific, albeit riskier, utility of a bespoke bilateral arrangement (Krohn & Sushko, 2022).

5.11 Asset-Specific Hedging Strategies in Crisis Environments

Within the broader institutional framework, specific asset classes allow for the “unbundling” of risk from underlying assets, a strategic necessity when warfare or geopolitical crises disrupt traditional ownership structures. By decoupling exposure from physical or nominal ownership, institutions can preserve capital, maintain liquidity, and mitigate systemic contagion even in volatile markets. Derivatives, swaps, and structured products serve as critical instruments in this process, enabling tailored hedging strategies that align risk profiles with organizational objectives. The strategic deployment of asset-specific hedging also fosters resilience across interlinked markets. For instance, when commodity or currency markets face disruption due to armed conflict, financial instruments referencing those assets can be used to offset losses in operational holdings, allowing firms to maintain operational continuity. In this sense, hedging transcends a purely financial function and becomes a tool for institutional survival, safeguarding not only shareholder value but also the broader stability of economic networks dependent on uninterrupted asset flows. (Adeloye, & Olawoyin, 2025).

5.12 Interest Rate Swaps (IRS) and Duration Risk

Interest Rate Swaps serve as the primary mechanism for decoupling duration risk from an institution's capital structure. This is critical when war-driven inflation surges make holding long-term bonds untenable; IRS allow institutions to isolate and trade interest rate sensitivity while maintaining their underlying principal positions (Abbritti, Gil-Alana, Lovcha & Moreno, 2016). Total interest rate volume thus reflects the market’s collective effort to lock in funding costs amidst geopolitical uncertainty.

5.13 Credit Default Swaps (CDS) and Systemic Contagion

The Credit Default Swap (CDS) functions as the strategic "insurance policy" of the financial world. Spikes in CDS activity occur when energy-driven inflation threatens firm solvency (Alqaralleh, 2024). In this context, total credit volume serves as an empirical measure of systemic default contagion, indicating the depth of the market's fear regarding a chain reaction of failures (Rikhotso & Simo-Kengne, 2022).

5.14 FX Swaps and Safe Haven Liquidity

Foreign Exchange (FX) swaps are strategically essential for maintaining USD funding when global trade routes are disrupted (Pape, 2022). These instruments allow multinational firms to manage foreign exchange risk and prevent the erosion of their "margin of safety" (Baker & Wurgler, 2015). When geopolitical chaos renders emerging currencies volatile, the search for "safe haven" liquidity in the USD drives total FX volume (Obstfeld & Taylor, 2017).

5.15 Synthesis: Volatility and the Strategic Mandate of Risk Management

The relationship between market volatility and the strategic mandate of risk management is inextricable. Volatility dictates the "cost of protection"; as price fluctuations intensify, the necessity of utilizing swaps to lock in certainty increases proportionately. Consequently, the systematic identification and mitigation of exposure becomes the central priority during geopolitical conflict. This theoretical framework is ultimately validated by empirical reality: the 42% volume spike observed in the swap market during periods of intense geopolitical crisis is not an anomaly, but the definitive evidence of the market's role as the strategic infrastructure of last resort. Hedging is the primary defensive maneuver that ensures the resilience of the global financial system against the shocks of war.

6.0 METHODOLOGY AND METHODS

This study employs a quantitative comparative research design to isolate the impact of the March 1st geopolitical shock. The logic of this design is to compare a "pre-shock" baseline (February 13) with a "post-shock" state (March 13) to observe how institutional actors reallocate capital in real-time.

Data is sourced from the Commodity Futures Trading Commission (CFTC) Swaps Report. This methodology utilizes "Dollar Volume" and "Cleared Status" as primary metrics because they offer the most direct reflection of participant sentiment and risk aversion. Crucially, the methodology adheres to two technical nuances: (1) for cleared swaps, the data reflects the notional value of the creation of only one of the two swaps resulting from the clearing process to avoid double-counting, and (2) the data includes only market-facing trades, explicitly excluding compressions, terminations, amendments, and novations. This approach ensures that the 42% volume increase represents "organic hedging demand" rather than an artifact of administrative trade lifecycle events.

This analysis utilizes weekly data published by the U.S. Commodity Futures Trading Commission (CFTC) from their Swaps Report, specifically focusing on the dollar volumes of swaps segmented by cleared and uncleared status across key asset classes: interest rate, credit default swaps (CDS), and foreign exchange (FX) swaps. The dataset spans the weeks from February 13 to March 13, 2026, enabling a comparison before and after significant geopolitical events that began on March 1, including the U.S. bombing of Iran and the closure of the Strait of Hormuz. These events notably impacted global financial markets, particularly oil prices,

which surged to between $110 and $140 per barrel, thus influencing risk perceptions and trading behavior.

6.1 Data Source and Scope

The data represent the notional value in millions of U.S. dollars of all swap trades executed during each week, including all product types, tenors, and market participants. The volumes are categorized by asset class and whether the swaps were cleared through a central counterparty (cleared) or remain bilateral (uncleared). For cleared swaps, the reported figure reflects only one leg of the swap creation process to avoid double counting. Importantly, trade events such as compressions, terminations, amendments, and novations are excluded to ensure consistency and accuracy in measuring actual market activity.

6.2 Data Processing and Aggregation

Weekly total volumes were compiled by aggregating the reported notional amounts across the three major asset classes. Both cleared and uncleared volumes were tracked separately to provide insights into market structure dynamics and liquidity distribution. The comparison focuses on the weeks of February 13 and March 13 to capture shifts influenced by geopolitical tensions and market volatility.

6.3 Contextual Considerations

The geopolitical context forms a critical component of this analysis. The onset of military conflict and associated disruptions in oil supply routes introduced heightened uncertainty and elevated risk premiums, particularly affecting rates, credit risk, and currency volatility. These conditions prompted market participants to adjust their hedging strategies accordingly.

6.4 Analytical Approach

Comparative Analysis: Volumes were compared across the selected weeks to identify magnitude and direction of change in swap activity. Percentage increases or decreases were calculated for total volumes as well as for cleared and uncleared subsets within each asset class.

Interpretation of Cleared vs. Uncleared Activity: Understanding the split between cleared and uncleared swaps sheds light on market participants' preferences for risk management and counterparty exposure, with cleared swaps generally representing more standardized and regulated contracts.

Class-specific Insights: Each asset class was analyzed individually to discern unique market responses. Interest rate swaps often serve as tools for hedging funding and rate risks; credit default swaps reflect credit risk concerns heightened by geopolitical instability; and FX swaps indicate currency risk management amid volatility.

7.0 RESULTS OBTAINED

The transition from the February 13 baseline to the March 13 crisis state reveals a dramatic expansion of market activity across all asset classes (Table 1). Interest rate derivatives experienced a substantial increase, reflecting heightened hedging demands and funding pressures. Credit derivatives, particularly CDS, more than doubled, signaling growing concerns over default risk and sovereign exposure. Foreign exchange markets also saw notable growth, driven by bilateral liquidity needs and limited clearing penetration. Both cleared and uncleared segments expanded, highlighting shifts in risk management practices and a strong preference for central counterparty safety during periods of heightened market stress and uncertainty.

Table 1: Comparative Swap Dollar Volumes by Asset Class and Cleared Status (Feb 13 vs March 13)

Asset Class	Feb 13 (Million USD)	March 13 (Million USD)	Percentage Change / Context
Total Interest Rate	17,514,753	27,844,278	~59% Increase
– Cleared	15,110,002	24,333,928	Hedging rate / funding risk
– Uncleared	2,404,751	3,510,350	Shift to CCP safety
Total Credit (CDS)	559,688	1,299,157	>100% Increase
– Cleared	354,849	858,513	Acute default risk concerns
– Uncleared	204,839	440,644	Sovereign default fears
Total FX	13,424,588	15,658,355	~17% Increase
– Cleared	305,337	412,235	Limited clearing penetration
– Uncleared	13,119,251	15,246,120	Bilateral liquidity needs
GRAND TOTAL	31,499,028	44,801,790	~42% Overall Increase

Source: Own elaboration based on Commodity Futures Trading Commission. (2026) Market Reports. Note: Data excludes non-market-facing events (compressions, novations, etc.) and reflects one side of cleared trades.

7.1 Summary of Findings

The results reveal a substantial increase in total swap volumes, rising by approximately 42% from February 13 to March 13, reflecting heightened market activity under increased geopolitical risk. Interest rate swaps experienced the most pronounced growth (~59%), underscoring their role as primary hedging instruments during periods of uncertainty. Credit swaps more than doubled in volume, signaling intensified concerns over default risks linked to war and energy inflation. FX swap volumes rose moderately (~17%), with the majority remaining uncleared, consistent with the rapid bilateral trading characteristic of currency markets. This methodological framework ensures that the analysis is grounded in reliable, standardized data while contextualizing market behavior within a turbulent global

environment, thus providing a robust basis for interpreting shifts in swap market dynamics during the period under study.

7.2 Analytical Narrative

The empirical data reveals a sharp divergence in asset class behavior. Interest Rate swap volume surged 59%, driven by the need to manage duration amid a radical repricing of inflation as oil surged toward $140/bbl. Most significantly, Credit (CDS) volumes more than doubled (>100% increase), highlighting a systemic concern regarding corporate and sovereign credit deterioration due to war and energy-driven inflation (Vance, 2022). FX volume saw a more modest 17% rise; while currency volatility was high, the market's reliance on the uncleared sector (representing ~97% of total FX volume) underscores a "liquidity-flexibility trade-off." Participants chose the speed of bilateral trading to navigate rapid currency shifts rather than wait for the standardized margining of a CCP or Central Counterparty.

8.0 CONCLUSION AND DISCUSSION

The empirical results confirm that geopolitical instability activates a rapid "Flight to Safety" and a "Risk Aversion" channel within derivative markets. The pronounced shift toward cleared swaps in the Interest Rate and Credit sectors represents a strategic attempt by institutional actors to shield themselves from counterparty risk via the robust risk management frameworks of central clearinghouses. This "flight to the CCP" is a rational response to the heightened probability of idiosyncratic default in a $140/bbl oil environment. However, the behavior of FX swaps—which remain 97% uncleared—highlights that bilateral flexibility remains a vital "safety valve" during rapid geopolitical developments. While regulatory frameworks push for standardization, the need for bespoke, immediate liquidity in currency markets often outweighs the security of clearing during the initial "fog of war". Ultimately, the 42% rise in volume demonstrates that the swap market effectively internalizes global shocks, serving as the primary arena for global risk repricing.

8.1 Limitations

While the data provide comprehensive weekly snapshots of swap market volumes, the exclusion of trade event adjustments and the one-leg representation of cleared swaps introduce certain measurement constraints. Additionally, the fast-moving nature of FX markets results in a high proportion of uncleared activity, which may not fully capture underlying bilateral risk exposures.

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