



Regional e-FX perspective on Asia

All eyes on the RMB

By Richard Willsher

The Chinese currency is the main subject of discussion among those involved in e-FX trading in the Far East.

News that the RMB is to be included in the International Monetary Fund's Special Drawing Rights basket reserve currency has intensified expectation that the mainland Chinese currency will soon become a major feature of

the e-trading landscape. At the beginning of October the People's Republic launched its China International Payment System (CIPS) as an interface between its domestic clearing and settlement system China National Advanced Payment

System (CNAPS) and SWIFT. This has fuelled speculation about an increase in the pace towards full liberalisation. Meanwhile statistics released by SWIFT at the end of October showed that

though it has slipped one place, it remains the 5th most popular currency for international payments.

For the time being however unrestricted international trading is limited to the Chinese proxy CNH, but activity in it is booming.

"RMB is the big issue that everyone is looking at the moment. Everybody wants to know what the RMB's reserve currency status will mean to them," explains Mark Webster, Global Head of FX Sales at Standard Chartered in Singapore. "We have to keep in mind that we are heading towards a complete liberalisation of the currency at some point. That's the way that the authorities are

guiding us but we have to deal with each step as we get to it. Trading in CNH has grown tremendously and the trend will only continue to grow. CNH is catching up to where the majors are and the demand for transacting via e-commerce is growing at a faster pace. People want to see larger transaction amounts flowing through the e-commerce platforms."

Apart from Standard Chartered's own experience, the growth in flows across the major trading platforms bears this out. "CNH remains a very solid growth

currency in Asia and especially in North Asia," says 360T's COO Asia Pacific and Head of Liquidity, Client Services & Operations, Jamie Salamon. "[Our] client base in Hong Kong and Taiwan especially, trade more CNH than G3 and so across the region it is certainly a top five pair on 360T."

Thomson Reuters agrees. "In September 2014 Thomson Reuters witnessed a 351% increase in offshore RMB trading on our FX electronic trading platforms versus September 2013, with volumes up a further 51% in September 2015. This is testament to the staggering growth and development of the currency over the past ten years," says Michael Go Thomson Reuters' Head of Market Development, FX, Asia Pacific. "Hong Kong has



Mark Webster

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become a leading global hub for RMB trade settlement, financing and asset management," he continues. "A wide range of renminbi products and services is available there to meet the needs of businesses, financial institutions, and investors. Renminbi activities in Hong Kong are supported by the renminbi liquidity pool in Hong Kong, which is the largest outside Mainland China. At the end of 2014, renminbi customer deposits and certificates of deposit issued by banks in Hong Kong together amounted to over RMB1.1 trillion Yuan, according to the Hong Kong Monetary Authority. More quietly, Singapore has grown in stature as an offshore centre for the renminbi, starting with bond issuance by HSBC and Standard Chartered in 2013

"Trading volumes in exchange-traded FX products have increased tenfold over the past 10 years."

and quickly followed by China's two biggest banks: Industrial and Commercial Bank of China (ICBC) and Bank of China. Singapore is building itself up as a renminbi hub not in competition with Hong Kong or London, but for Southeast Asia, capitalising on its increasing use in intra-regional trade in the fast-growing economies of the Association of Southeast Asian Nations (ASEAN)."

Nonetheless liquidity remains a challenge for those looking to hedge their RMB term exposure beyond spot using forwards, options and swaps. Yet the market is deepening according to the Singapore Exchange (SGX). "SGX has seen significant volumes in its USD/CNH contract, which we launched in October 2014," says Ivan Han, SGX's Vice



President, Derivatives (Rates & FX). "This has since become the most liquid CNH futures markets, with over 50% market share as of November 2015. Over USD20 billion in notional value has been traded since the launch in October last year, and outstanding open interest across all contract expirations has grown to around USD800 million in notional value. We

Hong Kong has become a leading global hub for RMB trade settlement, financing and asset management



have seen a wide segment of end users participating in our RMB contracts, including Chinese banks, international banks, asset managers, and commodity trading firms."

GEOGRAPHICAL SPREAD

While the RMB is clearly the highlight there are many other e-FX growth stories throughout the Asian theatre. Everyone we spoke to in preparing this regional perspective pointed to Asia as a significant growth region, though not necessarily in the same way.

"The Asian arena is slightly different from the west," according to Keith Pogson senior partner Asia Pacific financial services at consultants Ernst and Young.



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"The region splits into three or four chunks. There's the Japanese market that does its own thing. Then there's a Hong Kong / China bloc which is most concerned about Renminbi / Dollar. Given that the HKD is a proxy for the USD nobody really gets excited about hedging risk in HKD. Then there's Singapore, which is all the Asean currencies and it is the G7 trading hub in the region. Then there's the Aussie market which is AUD and NZD vs USD. Most of the banks are effectively running a global G7 book anyway. So what you see in London is a reflection of what's passing through APAC. In terms of the customer interface Asian, corporates have not got as far with moving FX onto exchanges as the UK, Europe or North America."

Even so, different banks, brokers and service providers are making inroads in line with their chosen sectors and segments of the e-trading market.

"We have a strong business in HK, China and Taiwan. We



also have corporate clients from Japan," explains Francis Lee MD Asia for Abu Dhabi based ADS Securities. "We are seeing more private individual clients from Malaysia who want to trade FX. And just recently Cambodia has become a very hot place for us. I think that's because there are lot of developing stories going on there. People there are getting richer and we tend to follow the growth in wealth. When the middle class starts to grow, that's when people get to know how to invest."

"Here in Asia," Lee adds, "people have more of a gambling mentality. And also they tend to follow trends. So a few years ago they were trading gold. Now they have come back to FX. People are trading FX, largely because the Dollar is getting stronger."

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At FXSpotStream, the bank-owned market utility, CEO Alan Schwarz reports that the company's new 2.0 GUI is proving attractive to some Asian customers while its API connection is gaining traction with others. "We're set to see continued growth in Tokyo, Hong Kong, Sydney and Singapore in our API business," he says. "My impression is that while over 60% of global spot FX is traded electronically it is less so in the Asia region. But the pace of change in the shift to electronic has accelerated."

Standard Chartered's Mark Webster agrees. "Asia has been more reticent than some other parts of the world to embrace e-commerce. It's a not as prevalent as it is in some regions. A lot of that is due

to the regulatory restrictions, the on-shore market in China for example. The proof of underlying trade that's required which can make it slightly harder than in Europe or the US. However, I think particularly as RMB volumes get larger and larger there will be increased demand for e-trading which is increasing anyway, and will increase at a much greater pace as people want to scale up and get more involved."

At 360T Jamie Salamon sees Southeast Asia as a strong area for e-FX with the bulk of that business coming out of Singapore. "Market taker banks and hedge funds are the dominant client segments and they are well served with electronic channels. So the challenge for the platforms is to differentiate themselves through product coverage, service, liquidity and unique functionality geared towards getting the best possible execution for the buy side client, which is certainly what we aim to offer at 360T. Traditional liquidity providers are in some cases less willing to provide pricing to clients for reasons associated with credit, balance sheet and general risk appetite. This means that some clients are now looking elsewhere for non-

traditional liquidity."

BUY-SIDE SERVICING

Indeed there seem to be two opposing forces struggling to gain significant shares of buy side business. On the one hand banks are benefiting from long-standing relationships, grown on the back of voice FX trading over many years. They are able to tie in their customers through offers of greater functionality. Aiming to dislodge those banks, or at least scoop a lucrative slice of buy-side wallet, are the newer platforms and technology firms. This battle is being played out on a daily basis though banks and their competitors work hand in glove because they need each other.

"Most of the corporate relationships have been very bank orientated and bank concentrated," continues E&Y's Keith Pogson. "They tend not to shop around among brokers but to work through one or two banks. And in reality they may have one bank that does most of their FX business. So the development here has been that straight-through-processing (STP) platforms have become much more key. It's the banks' own platforms rather than other FX trading platforms. So if the customers are with HSBC or Standard Chartered for example, the banks have worked quite hard to provide them with the FX services and STP that they need as part of their over all treasury

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management offering to clients. This has been a bit more robust in the Asian region than in some others."

Pogson states that, "The regional players are doing this too. So there is a kind of underground war going on. If you can provide a convenient STP platform for the client connected to their wider corporate relationship, and hopefully you'll have some kind of API which links to the corporate's ledger systems, you can probably mop up more of your customer's business

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than if they are left to wander about on industry-wide open platforms. The technology is driving who is the relationship. Then it's about the efficacy of that process for the bank to process your transactions online."

At Standard Chartered, Mark Webster notes that clients



Keith Pogson

are constantly refining their e-strategies and the way they transact business. "There is a bit of balance to be struck as people move forward, to understand the service proposition that goes alongside the e-commerce offering. And as the regulators move the industry from a price implicit to a price explicit model, there has to be a greater understanding about how people use capital, the broader relationship across the bank and how banks get rewarded for the services and the liquidity they offer. That's the broader picture that everybody understands and the way the FX market is changing. Specifically, for ease of processing, cost pressure, transparency, flexibility and control reasons, clients will continue to move a greater

percentage of their business to be done via e-commerce. Clients are always looking for spot, forwards and NDFs, and increasingly they are also looking for options liquidity and to integrate more structured products into e-commerce."

Thomson Reuters' Michael Go says that FX buy-side clients in the region will change in line with the growth of regional treasury centres in Asia. "As their funding positions increase and they need to hedge out their positions to manage the associated risk increases, they will seek broader pools of liquidity with tighter spreads for efficiency and a wider range of asset classes to price as part of their investment and hedging strategies. Tied to this will be the way in which they engage with cross border business and payments, which will see further reliance upon electronic FX gateways and partners."

CREDIT AND PRIME
BROKER ISSUES

Credit has become a major concern across the market as Francis Lee of ADS Securities points out, "The cost of credit and liquidity have all increased substantially so these clients are looking for companies like us who can sit between them and the PB and offer a prime-of-prime or principal trading service. We took a major step forward last

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The technology
provider perspective

While banks and individual platforms may offer strong products and services, the growth of the services offered by pure-play technology provider Broadridge Financial Solutions brings a new dimension to buy-side client servicing across Asia, especially those with regional treasury centres. Following its acquisition a year ago of TwoFour Systems, an FX technology provider, Broadridge has become more proactive in FX in Asia.



Chris Davis

"We'll show an organisation aggregated positions and risk across venues, across currencies, across geographies and on a global basis, all in real time."

"There is a lack of electronification among participants in the Asian market," says Chris Davis, Managing Director of Broadridge FX and Liquidity (FXL). "There are many institutions that still do things manually so we provide an automated solution that allows organisations to control how activity is received and transmitted all the way through to SWIFT. We have a componentised solution that does front, middle and back office processing and gives organisations a level of automation and regulatory reporting that is painful to do manually. The multibank and single bank platforms provide an execution management system (EMS). All of those platforms are leveraged by our clients. We consume that activity. We show an organisation aggregated positions and risk across venues, across currencies, across geographies and on a global basis, all in real time. We also handle the back office processing, confirmations, matching, net activity and settlements. We account for it, we produce statements, we interface with prime brokers – FXL is a very broad, robust offering. We are also able to do this with exchange-based transactions, and now support CFDs and spread betting."



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year when we put our OREX technology onto TY3 so that we can offer regional liquidity alongside very good credit lines.”

ADS Securities benefits from its high level of capitalisation but over all there is a rebalancing taking place according to FXSpotstream’s Alan Schwarz. “The requirements that prime brokers have of their clients have increased from a collateral perspective and a margin perspective. The prime space is still going through an adjustments phase so we have to wait and see how this will develop. We certainly have seen instances of clients being unable to trade because they don’t have a prime broker. Or clients are having to go and look for a new prime broker or a prime of prime because the capitalisation



Alan Schwarz

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Southeast Asia is a particularly strong area for e-FX

requirements have increased,” he says.

Standard Chartered however is more bullish. At the end of November it launched its full prime brokerage offering as part of a broader package of support options, under the ECLiPSe platform, for its clients. But the bank may be the exception. Ravi Pandit CME Group’s Executive Director, Foreign Exchange and Interest Rate Products for Asia Pacific says that CNH is particularly credit

intensive as it settles outside of CLS. “Therefore it is challenging to trade it in a prime broking capacity. Bilateral lines are also stretched because of the unattractive settlement hurdle.” He adds that prime brokerage is under pressure from Basle III, especially for long-dated tenors beyond spot. It may be up to non-traditional players to step in to fill the prime brokerage need.

Meanwhile the need for smarter tools to execute trades is bringing more algorithmic capabilities to the market. Larger, global corporates are applying them where they feel they can use them to add value.

“This is a growth story,” says 360T’s Jamie Salamon. “The

interest is there and we see a steady move towards this client base using more of our smarter tools for order execution. The understanding is growing amongst the client base that execution through algorithms offers a more objective way of trading and achieving certain outcomes, whether focusing on trading around benchmarks, reducing market impact or offering a more auditable process. We see this becoming an increasingly influential trading requirement.”

Algos may also be forcing other, smaller players to re-examine their technology offerings according to Dickson Woon, Senior Forex Manager at Phillip Futures in Singapore. “There

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Ravi Pandit

is a growing trend towards setting up small proprietary trading firms that deploy algos. This means their service providers have to upgrade their technology to cater for these needs.” He adds that a level playing field for algo trading and access to different trading venues is effectively becoming an alternative liquidity source for the Asian market.

RETAIL FX GROWTH

Not everyone is impressed by the growing use of algos. “On the retail side providers and brokers are always on the look out for new, automated trading and algorithmic tools to offer to their clients,” comments Derek Mumford Director Market Risk Advisory at Rochford Capital in Sydney, “but there are dangers in algorithms and I don’t think they help liquidity. They would deny that they are front running the market but this sort of algorithmic trading does not give corporates confidence to trade in the market.” Mumford is, however, upbeat about the growth in retail e-FX across Asia. “The enthusiasm of Japanese retail traders is



Dickson Woon

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spreading to other countries, especially China, with its casino mentality," he says. "Leverage may be a problem and liquidity as well to enable traders to get out when the market goes against them. Japanese broking houses are moving into other markets, making agreements and joint ventures with local financial institutions. It's also spreading from Australia into Asia as well. So there are many smaller, medium sized houses through which flow is moving and ultimately this finishes with the big banks. There are a lot of people looking at the Asian

market and there is a lot of potential."

At 360T Jamie Salamon agrees that the retail FX trading market is developing market and says that it will have an enormous impact across Asia in the coming years as investors become more sophisticated and trading platforms become more like those in the equities space. "The key," he says, "is to ensure that the usual fair and effective markets and oversight from regulators is in place to protect the investors. Key to any growing market will be

education with an associated opportunity for providers in that space as well."

Dickson Woon at Phillip also sees education as central to the growth in retail trading. "Retail clients are more knowledgeable as information is more readily available in the internet. They will choose on-line FX services that provide educational videos, webinars, transparency and clarity of information. Clients are demanding a seamless experience from account opening, support, good trading experience, execution quality and funds deposit/withdrawal."

Furthermore there is also an appetite among retail traders for mobile access. The approach is very clear. "We are moving to multi-asset and multi device delivery," says Francis Lee. "In 2016 clients will be able to access ADS' OREX platform via mobile devices with the latest app technology. What we say about OREX Mobile is that it puts the power of your desktop in your pocket and makes the markets work for you at anytime, anywhere. Our customer research has shown that this is what traders want."

At Standard Chartered retail is also a growing business in terms of volumes and geographies. "We are doing more and more in retail," says Mark Webster. "The retail market is quite different in Hong Kong, Singapore, Japan versus

Malaysia, Indonesia, Thailand which may have more growth in the future. It depends on the regulatory environment. You can't trade freely in many of these latter countries so retail FX causes slightly more problems.

REGULATION, REGULATION, REGULATION

"Regulation is particularly important for the whole FX market," Lee continues. "Some people here in Asia see Retail FX as some kind of underground product. They think that it lacks rules or people are cheating each other, or that companies play games and steal their money. So more regulation of our market is definitely much better. This dates back to 1996-97 when the market was unregulated and people lost money to unscrupulous people. Even now it is very easy to get an FX license. The Swiss National Bank

event and one or two others have tended to clean out the weaker players in the market."

This may in part also explain why on-exchange and clearing products have grown in popularity significantly over the last several years, especially for banks and institutions.

"FX clearing is not mandatory," says CME's Ravi Pandit, "however the upcoming imposition of initial margin and variation margin for banks and other active institutions may propel interest in cleared FX as a more cost-effective alternative. We could also see the emergence of split liquidity pools and cleared versus un-cleared in FX on OTC platforms."

"Trading volumes in exchange-traded FX products have increased tenfold over the past 10 years," says SGX's Ivan Han. "We see potential for this to grow further as a result of changes in market microstructure and global regulations such as Basel III, which has increased banks' cost of trading un-cleared OTC FX derivatives as a result of capital penalties for non-cleared exposures. SGX sees exchange-traded products as complementary to OTC, particularly as many banks

and large institutional clients will continue to execute large blocks of FX trades in the OTC market and use on-exchange products, such as SGX futures, as a clearing solution. This complementary nature is why SGX is working closely with EBS to offer FX block futures trading in several currencies."

Exactly where regulation will steer the e-FX market in coming years is as unclear in Asia as it is in any other region. The regulatory wheel is still in spin. What is clear as far as e-trading of FX Asia is concerned is that more and more countries and currencies are joining the international market, though Tokyo, Singapore, Hong Kong and Sydney look set to remain the principal hubs linked by high speed connections. More products are being developed and more service providers, whether they are banks, platforms, exchanges or technology providers, are finding more work to do. It is getting more competitive by the day. China is likely to remain the biggest story of all as we go forward and could grow its own e-FX hub perhaps in Shanghai. It is also likely, in due course, to be the biggest source of new e-FX business of all. But when and how that will pan out however is anyone's guess and everyone is following the evolving Chinese economic and currency story with intense interest.



Derek Mumford

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