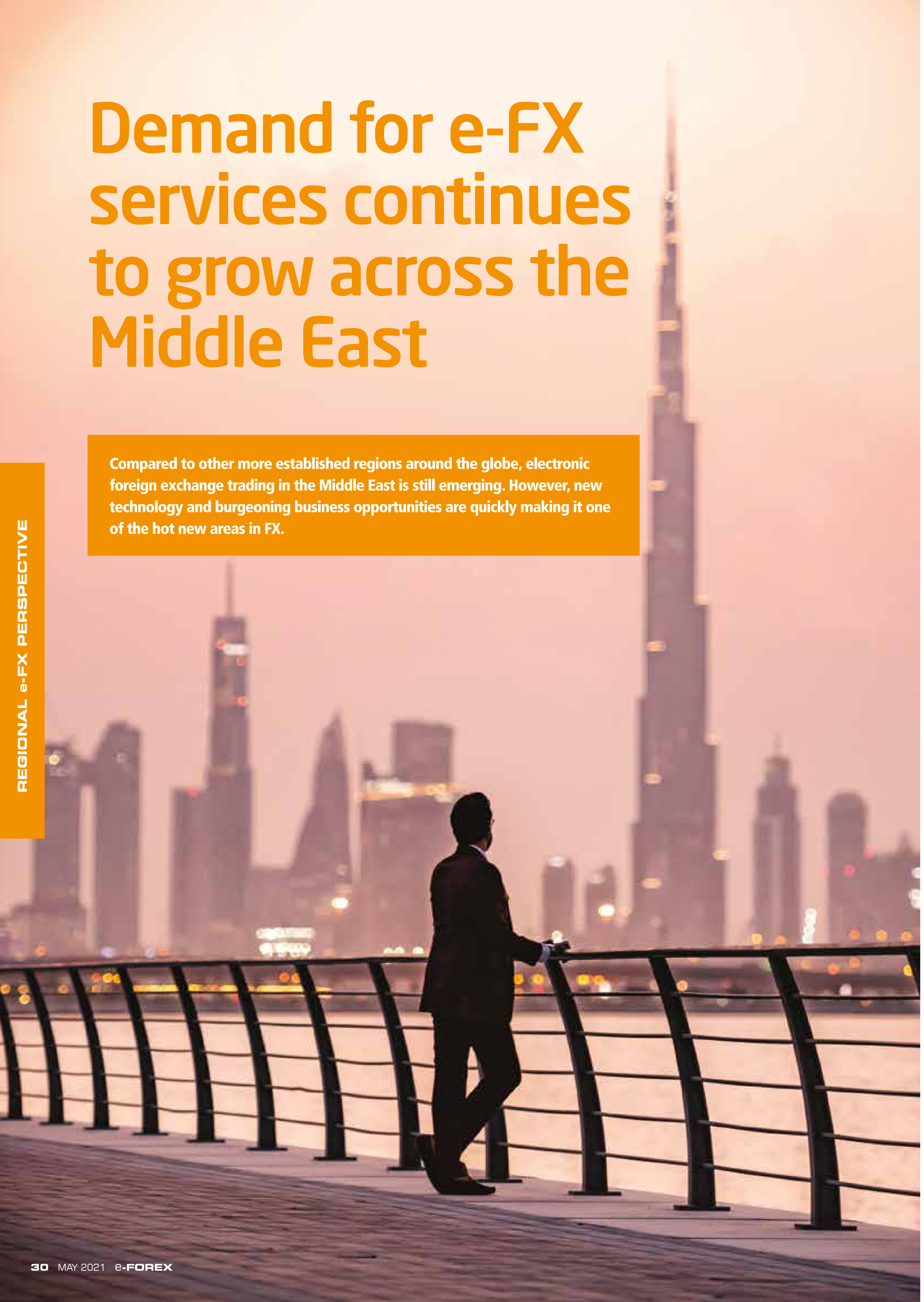

Demand for e-FX services continues to grow across the Middle East

Compared to other more established regions around the globe, electronic foreign exchange trading in the Middle East is still emerging. However, new technology and burgeoning business opportunities are quickly making it one of the hot new areas in FX.

The natural demand for currency transactions in the Middle East region are typically precipitated by three key channels. Firstly, the Middle East is a net importer of goods and services globally, so the requirement to pay in foreign currency has long been a stable business for banks providing services to their clients. The Middle East is of course a huge global exporter of oil and gas, too, and the main source of foreign currency coming into the region is the US dollar. There are also a large number of foreign workers, so there are many FX flows in the form of remittances, particularly in INR, PKR and PHP. There is also an increasing Chinese influence over the region as well. In imports, there are more transactions being completed today in CNH as Chinese-based manufacturers, that used to bill in USD, now provide incentives if invoices are paid in their own currency instead.

Over the years, there has also been the establishment of key infrastructure like the Dubai Gold & Commodities Exchange, which opened its doors in 2005. This has helped institutional players gain a foothold in the region and made the Middle East market more international. A range of currency futures are listed on the exchange, such as G-6 currency futures and crosses with the Indian rupee, helping to strengthen trading relations with India as it is one of the United Arab Emirates' largest trading partners.

But newer developments hitting other markets are also playing their role in turbo-charging the Middle East's FX drive. Corporate, retail and crypto services are also on the rise in the region, helping it become a relevant part of the FX ecosystem for a multitude of banks, buy-side firms and technology providers.

"There have been some really big steps on the technology side and robotic trading is becoming a major trend now in the region which attracts new investors on a daily basis and induces volume to the market,"

"While the Middle East is perhaps a little bit behind in FX trading, the traction is there. With more regulatory bodies introducing new licenses across the region, the approach is now to localize as much as possible and focus more on a country- by-country approach," says Mohammad Isbeer, global head of brokerage sales at Equiti group, the parent company of some of the most progressive FX and CFD brands and prime brokerage providers in the industry. "Not to mention there have been some really big steps on the technology side and robotic trading is becoming a major trend now in the region which attracts new investors on a daily basis and induces volume to the market," he adds.

Mohammad Isbeer

The Covid-19 pandemic that hit financial markets last March was a major challenge for many different institutions across the globe. But the FX market was an outlier, particularly in the Middle East. It was one of the best performers during Covid-19, while a lot of other industries suffered.

This was helped by the fact that, in many respects, FX is already an online business. Many platforms are online via either mobile apps or desktops, and are already positioned to be as agile as needed. There are also many payment solutions via bank transfers, credit cards and PSPs.

The pandemic has essentially accelerated a digitization trend that was already taking place, according to Husam Basaddiq, Trading Proposition Sales Director for Emerging Markets for Refinitiv, and Ahmed Alsada, the senior site representative in Bahrain and senior account manager for Refinitiv. "Banks that embraced technology over the last few years have swiftly navigated the challenges posed by the pandemic as opposed to those that resisted change. We have seen a surge in online portals and mobile applications," says Basaddiq and Alsada.

ELECTRONIC TRADING

Covid-19 brought with it some unprecedented volatility and volumes surged in 2020 and are still going strong in 2021 with no signs of slowing down. This has been helped by the steady increase in electronic trading in the region, particularly in the last 10 years where brokers and regulators have been pushing this development.

In that time there has been demand from the local banks for e-FX platforms specifically in liquid currencies from their sell side banks. This service has been traditionally provided by Tier 1 global banks with the introduction of the single bank portal, but as regional consolidation took place, more local players started to offer this service.

Demand for e-FX services continues to grow across the Middle East

The 2008 financial crisis also reduced the risk appetite of international banks in the region. This retraction from those markets left a void that was filled by large regional players. Players that invested in technology had a first move advantage and are now considered the incumbents.

"Regional markets have evolved from manual request for quotes priced by humans to streaming requests by clients to execute with minimal effort. This evolution took place over the last 10 years in the Middle East region of which Refinitiv has been able to support clients in every step of their digitization journey," says Basaddiq and Alsada at Refinitiv, whose FXall platform has seen a compound annual growth rate of 46% of e-FX trading volumes between 2016 and 2020.

Much of the focus has been making trading easy and safe, while creating products that are suitable to the nature of the region, be it Sharia Compliant accounts, regional equities, CFDs, spot and future gold and oil. There are many buy-side organisations in the Middle East that could strongly benefit from the offering and the service of institutional platforms.

"We have seen the appetite for using multi-bank platforms increase significantly in the Middle East over the past few years."

Bruno Guillome

"We have seen the appetite for using multi-bank platforms increase significantly in the Middle East over the past few years for a variety of reasons," says Bruno Guillome, Head of Sales for the Middle East and Africa at 360T.

These include, reaching a group of relevant liquidity providers in parallel and being able to compare pricing, resulting in better price transparency and discovery. These firms also have an obligation to their investors or stakeholders to achieve best execution on their behalf, and comparing the pricing of different liquidity providers on one platform in a transparent manner, selecting the best price and then having a comprehensive audit trail helps firms to meet this best execution requirement.

"One such way is through our Execution Management Systems (EMS): designed with low touch, high accountability in mind, focused on reducing operational risk and increasing productivity in order to free up the traders to focus on more value-add tasks," says Guillome.

Banks look towards platforms like 360T to act as technology partners who can provide them with high performance but also flexible pricing engines that can enable them to maintain and grow a profitable dealing business.

"We see a growing demand amongst this segment of the market in the Middle East for unique data products which can allow them to more effectively price clients across a whole range of FX instruments and analytics which can help them to understand how to win more business," says Guillome.

Market participants typically tend to prefer "best-of-breed" platforms which specialise in FX trading, but they want to utilise a platform which can meet all of their FX needs across every single product set, both in the OTC and listed markets

"360T together with Eurex Exchange offer market participants one single venue through which they could execute every type of listed or OTC FX product with all of the pre-trade, execution, post-trade services and functionality that they might require," says Guillome.


For institutional platforms that are already established in other more mature FX regions, the Middle East represents a major opportunity for growth.

EXCITING TIMES FOR DGCX

On a macro level, there has been little surprise in the region that FX & metal volumes would pick up on exchanges like Dubai Gold & Commodities Exchange.

Liquidity conditions have generally been robust in the region and Dubai's location as a gateway between other key markets like India, Pakistan and the rest of the Gulf Cooperation Council (GCC), which is a political and economic alliance of six Middle Eastern countries including Saudi Arabia, Kuwait, the UAE, Qatar and Bahrain, make it a valuable proposition as a centrally cleared destination for FX and metal products.

These markets have been of major interest in the region since volatility picked up as a result of the Covid-19 pandemic. In addition to its market leading Indian Rupee contract, DGCX was the first to launch centrally cleared spot FX products (EURUSD, GBPUSD and AUDUSD) and has recently announced a Pakistani Rupee FX product as a first of its kind globally.

"The launch of such products in a highly regulated and safe trading environment, coupled with the growing global interest in FX & metals make it a tantalizing proposition. With uncertainty reducing in FX markets and global central banks maintaining dovish policy, the US Dollar has reverted to its trend of weakening amidst larger risk on tendencies, and this has led to a clearer trend in FX markets," says Gaurav Kashyap, Head of Futures at EGM Futures DMCC, a subsidiary of Equiti Group.


Source: Ravindranath K / The National

DGCX was the first to launch centrally cleared spot FX products

"After an initial dip in early 2021, DGCX's EURUSD contract has rallied from 1.17 levels to above 1.21 levels in March alone. And amidst the current themes driving financial markets, there is potentially some more room in this rally towards those 2020 highs above 1.23." While Gold has been range-bound, its bounce from sub 1700 levels at the end of March is seeing some fresh longs coming in. "Such moves will no doubt attract interest in these products which we are seeing now," says Kashyap.

DGCX's central clearing corporation (DCCC) was recently officially recognized as an SCA-licensed CCP in UAE and they were also listed as a Third Country Trading Venue that meets MiFID II/MiFIR transparency criteria.


Gaurav Kashyap

"The exchange's announcement of its market technology agreement with NASDAQ for a full suite of integrated marketplace solutions is very exciting and will no doubt enhance the current environment of multi-asset trading & clearing, settlement and risk management capabilities. The combination of accessing innovative products amidst enhanced trading technologies in a highly regulated environment with international standards primes DGCX for an exciting 2021 & 2022," says Kashyap.

TECHNOLOGY INNOVATION

Given the Middle East population is mainly made up of millennials, they are the driving force behind a lot of the technological innovation taking place in the region. As a result, millennials are looking to partner with banks that are easily accessible from anywhere in the world. This digitisation started about 10 years

"The DGCX's announcement of its market technology agreement with NASDAQ for a full suite of integrated marketplace solutions is very exciting..."

ago in larger regional banks and has expanded since to more local players via mobile apps, online banking and their proprietary platforms.

"Millennials want services that can complement a lifestyle that is driven by increased mobility. This also means financial institutions need to provide flexible banking solutions to fit into this way of living," says Miljan Stamenkovic, General Manager for the Middle East and North Africa at Mambu, a fintech firm.

Technology is raising customer expectations within nearly all client segments in the region. For slow moving incumbents, the new greenfield digital banks are rapidly challenging the status quo and are looking to increase their market share.

Within the GCC, most of the large corporate and SME FX flows are focused within trade, and the retail FX flows are concentrated within foreign remittances and e-commerce.

For these clients, real-time payments with 24/7 live, online FX pricing and enhanced end-to-end post-trade services is no longer considered a premium service, but rather is in demand as a default offering.

Husam Basaddiq

"Banks that embraced technology over the last few years have swiftly navigated the challenges posed by the pandemic as opposed to those that resisted change"

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Miljan Stamenkovic

"To offer these services, challenger banks are turning towards cloud-native SaaS core banking solutions, like Mambu, which through its composable architecture and API-first approach, offers best of breed services including FX," says Stamenkovic.

"Money movers and payment providers, such as Wise and Currencycloud, seamlessly integrate within the core and are able to offer real time mid-market rates through the digital bank website or app, and global payments in numerous currencies," he adds.

Banks in the region have utilized a mix of platforms as a SAAS, a mix of deployment methods of cloud and on-premise deployment to achieve those needs. Given the nature of real-time banking requirements, banks have also invested heavily in the compliance area developing solutions that meet regulatory requirements concerning digital service delivery.

Public cloud service providers are also making it easier to do business in the region. AWS in Bahrain, Microsoft Azure in the UAE and other CSPs entering the market are addressing data residency challenges and make it easier for challenger banks to scale their services across the region.

"This scalability will allow for branchless digital banks to capture more expat cross-border FX flows, hence offering better liquidity to their clients and enhancing their internal risk management by warehousing the risk at the pricing centers," Stamenkovic.

REGULATION

There are numerous regulatory changes and initiatives that have been hitting the Middle East market and help bring it in line with other jurisdictions. For example, the GCC's real-time gross settlement (RTGS) initiative promoted by all the GCC central banks is expected to be implemented shortly. This might change the dynamic of some of the GCC's trading patterns and will offer a cross-border payments facility while leveraging cutting edge technologies in accordance with international standards and best practices. Key rules such as the second iteration of the Markets in Financial Instruments Directive (MiFID II) have been put in place in the European Union to help increase transparency around trading instruments, and this has brought forth a new wave of best execution requirements in the region.

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The DFSA is the independent regulator of financial services conducted in or from the DIFC

REGIONAL e-FX PERSPECTIVE

While these rules do not apply to Middle Eastern firms, the large corporations and international financial institutions that operate in the region are still subject to them elsewhere and thus are naturally moving towards FX trading venues which enable them to more easily transact in a manner which is consistent with these rules.
Dubai, one of the major financial centers in the region has also been busy bringing the region in line with new products and innovations that impact FX. The Dubai International Financial Center - a freezone in Dubai - was founded in 2004 and now has more than 25,000 people working in the area inside over 2,500 registered companies. The Dubai Financial Services Authority (DFSA) is the regulator of more than 600 of these institutions, according to Ken Coghill, head of operational and technology risk supervision at the DFSA.

Ahmed Alsada

"Regional markets have evolved from manual request for quotes priced by humans to streaming requests by clients to execute with minimal effort."

In May, 2017, in order to foster innovation in the region, the DFSA opened a 'licensed-sandbox' called the DFSA Innovation Testing License (ITL), which had 105 companies apply to be in the program. The DFSA anticipates that fintech will just be known as financial services in years to come, as technologies like blockchain will see a lot more adoption in the next 5-10 years.
The use of artificial intelligence (AI) on both the regulatory side and the private sector will also increase as the regulator begins to monitor robotic processes just as much as human processes.

In addition, the regulator is working on a crypto asset regime with a consultation due to be issued shortly on that. This will enable businesses that are offering crypto assets to buy and sell to come into the program. The DFSA also created a cyber risk division two years ago to tackle current and emerging threats in the digital world. To supplement this, the regulator launched a 'threat intelligence platform' in January that allows firms to share threats they see in their own system as well as outside threats.

Outside of the Middle East, there are also a number of regulatory changes happening globally which have a ripple effect and therefore impact the Middle East indirectly. Mifid II is not Middle Eastern regulation but it still impacts many of the firms who operate in the region and as a result influences their behaviour and creates demand for new tools. "In the case of Mifid II we have seen a sharp uptick in clients wanting access to more data and improved analytics as they look to meet their best execution requirements," says 360T's Guillome.

Looking ahead, the Uncleared Margin Rules (UMR) is another one of these regulations which could have an indirect impact on the Middle East. It is anticipated that some FX market participants who become subject to UMR in the next couple of years might look towards services such as central clearing for parts of their portfolio in a bid to mitigate the impact of these rules. It is uncertain at this stage what impact this will have on the Middle East, but in today's compliance focused trading environment, clients demand to know that firms can help them with any regulations coming down the line which might impact them.