

Q&A

# Unlocking Mexico's FX Growth Potential

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While the Mexican peso is one of the most widely traded currencies in the world today, speakers at a recent webinar hosted by Monex and 360TGTX discussed how advances in technology and credit could further boost liquidity in the local onshore FX market.

**Looking at the MXN volumes published by the Bank for International Settlements (BIS) in their latest OTC FX survey it seems that trading activity in this currency continues to grow at a much faster pace in the offshore market than the onshore one. Can you please talk about why this is?**

**Juan Garcia:** Yes, according to the BIS the Mexican peso is the second most traded emerging market currency, right behind the renminbi, with a daily turnover of \$112bn across spot and derivatives products.



*Juan Garcia, Director of Domestic Operations, Banco de México*

Most of the volume is traded abroad, with only 20% of it involving at least one Mexican counterparty. And we can see a clear trend line — whereas now 80% of MXN trading activity is executed

between offshore counterparties, back in 2007 that figure was 65% and in 2001 it was just 16%. So clearly one of the major developments that has occurred in this market is that the peso has become an international currency.

This has occurred for a number of reasons, during the past 20 years MXN has become a very liquid currency and it has characteristics

which enable market participants globally to use it in order to hedge their potential emerging market risks. This makes it very attractive.

In addition to these volume trends there is also a disparity between the level of technology adoption on the onshore and offshore FX markets. Whereas trading technology has been implemented at a fairly rapid pace offshore we think that there is room for further adoption in the onshore Mexican market which could help it to grow faster.

### **Are there any existing constraints that are restricting the growth of the local Mexican FX market?**

**Javier Alvarado:** Well firstly, I would echo Juan's points about the Mexican FX market being very competitive. There are a lot of market participants and the spreads that we see are very tight compared to other emerging markets, and even compared to some developed ones.

However, there are a couple of constraints on the local marketplace that we see.

One of them, as Juan correctly pointed out, is technology. During the pandemic we saw a trend towards more firms in Mexico using electronic FX trading platforms, but I still think that the adoption of the latest technology here lags behind the rest of the world.

Another significant restriction is credit. This is partially to do with the fact that some local market participants don't have good enough credit to trade with some of the traditional liquidity providers, but also because it can be difficult to get access to a prime broker, either because the process is cumbersome or because the prime brokers are not expanding their services in Mexico, or LatAm generally.

**Roberto Nava:** I would agree that technology and credit are two of the big limiting factors on FX trading in Mexico. Another element is that there needs to be some cultural changes here in order to drive the adoption of new technologies such as multibank platforms, but I see this slowly happening and so I think that there will be an expansion of e-trading activity in the next few years.

**Let's drill into each of these issues one at a time then. How can technology be used to facilitate FX growth in markets like Mexico?**

**Matt O'Hara:** Well across the globe in developed markets we've seen an explosion in the adoption of technology across every segment of the FX market — from afore's and hedge funds to asset managers and banks of all shapes and sizes — because technology enables everyone to be connected together in an easier way and reduces barriers to trading.



*Matt O'Hara, CEO, 360T Americas*

Take credit, which was mentioned a couple of times just now, as an example. Technology can create credit paths which enable more firms to interact and trade with one

another. It can also open up pockets of liquidity which would otherwise be hard to tap into due to the fragmented nature of the OTC FX market. Technology also creates transparency, which is an important consideration for firms these days.

And this is exactly why 360T has partnered with Monex to leverage our technology and their credit profile as a member of CLS to solve the previously mentioned challenges, enabling firms in Mexico to use an innovative new credit path to access a modern technology solution which enables them to access liquidity and pricing from a wide array of sources all over the world.

**This brings us on to the second topic then: credit. Monex recently announced the launch of a new credit hub that will enable firms in Mexico to interact anonymously with the liquidity on the 360TGTX platform. How specifically do you see this benefitting local onshore firms?**

**Javier Alvarado:** It will benefit local market participants by removing the existing credit restrictions and providing an alternative channel for accessing FX liquidity.

Currently, local firms trading FX use voice brokers, single bank portals or disclosed multibank platforms, but there are problems with each.



*Javier Alvarado, CEO, Monex Casa de Bolsa*

Voice broking doesn't solve the credit issue, it is inefficient, not transparent and comparatively expensive. Single bank portals are good but the pricing is from only

one source and therefore it is not being put into competition, which makes it hard to prove best execution.

The problem with disclosed multibank platforms is that credit restrictions mean that only some of the liquidity providers on the platform will be able to provide pricing to Mexican firms.

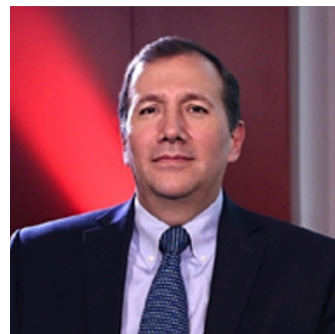
By contrast, the hub that we have produced in partnership with 360TGTX allows local firms to access top tier liquidity providers and non-traditional liquidity providers who are already offering anonymous pricing on the platform. To the earlier point about the majority of Mexican peso trading occurring abroad, what this initiative aims to do is more effectively connect these onshore and offshore marketplaces, opening up more liquidity for everyone.

**INVEX is one of the firms that is already utilizing the Monex hub to trade on 360TGTX. Roberto, can you please provide the user perspective about why this was an attractive prospect to your firm?**

**Roberto Nava:** We were very interested in the concept of the hub from the first time that we heard about it for a few reasons.

Firstly, it offers a new source of liquidity for us that would be very difficult to access one-on-one as a counterparty. This is very important.

Secondly, we can now access a significant number of counterparties through one central counterparty, which in our case is Monex, and clearly this is much more efficient than maintaining direct relationships with each.



*Roberto Nava, Director FX & Derivatives, INVEX*

The third is that there are banks and non-banks outside of Mexico looking to trade MXN and using 360TGTX we can trade with them without having direct contact with

each. As a result we've found a lot of liquidity for our proprietary trading and can also share better prices with our clients.

### **So what are the specific advantages of anonymous trading compared to disclosed?**

**Matt O'Hara:** It's access to a broader set of liquidity, tighter spreads and the ability to minimise market impact when trading because you're not disclosed to the counterparty.

This means that Roberto, who as we mentioned is trading on the hub right now via Monex, could trade with a counterparty in Europe, Canada or the US and it could be a traditional global money centre bank or even a non-bank market maker who is active on the 360TGTX ecosystem.

So essentially, anonymous trading helps local market participants to tap into the global pool of Mexican peso liquidity that we support across our global community of clients, facilitated by Monex and the excellent credit profile which they have as part of CLS.

### **Finally, what impact has the pandemic had on the local FX market in Mexico? Has it driven any changes in behavior, particularly as it relates to technology?**

**Juan Garcia:** The pandemic created an unprecedented situation for us as a central bank, but also for all the participants in the local FX market here. However, one good thing that emerged from this is that many players adopted new technologies as a result and so we see an increase in the amount of trading occurring via electronic channels, which is a very positive development.

Given that we will potentially live in a world with more flexibility to work remotely going forward, our belief is that the trend we've observed over the past year towards more technology adoption will continue, particularly on the buy-side.

And indeed, I think the hub which Monex and 360T have talked about will help to change the landscape of how local FX market participants interact with international counterparties.

Further information

🔗 [Monex and 360TGTX Launch New Credit Hub in Mexico](#)

🔗 [Supporting a New Generation of Anonymous Trading in Mexico](#)

🔗 [CLS welcomes first Mexican settlement member to CLS Settlement](#)

🔗 [EIS - Foreign exchange market](#)



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