Streaming NDFs: The race is on

As competition around Streaming NDFs heats up, Darryl Hooker, Head of NDF Strategy at 360T, outlines how trading venues are differentiating themselves in this product segment.

Darryl Hooker

In recent years we've seen two trends converge which have served to drive a sharp uptick in interest regarding Streaming NDFs.

The first is the remarkable growth story that we're seeing in local markets, particularly in South East Asia and parts of Latin America, which has created business opportunities in these countries for international firms, as well as for local suppliers of services and products. This in-turn naturally leads to more cross border transactions, which often require NDF trades due to local currency restrictions in these markets.

The second trend is that more NDF trading has shifted towards electronic channels. This has significantly increased the level and quality of data, analytics and liquidity around these products — all of which are crucial to building out a viable streaming pricing service.

The key benefit of streaming prices is that it provides FX market participants with a consistent and constant view of the market, rather than notifiying your makers that you are now ready to do a trade. Having this continuous pricing available gives firms greater confidence when executing NDFs because they can see movements occurring in the market, identify when liquidity is optimal and determine when is the best time to trade.

WINNERS AND LOSERS

Unsurprisingly though, 360T is not the only platform provider which has noticed these trends and consequently the race is on to become the ECN of choice for Streaming NDFs. And as in any race, there will be winners and losers in this product segment.

One factor that will be crucial in determining the success of a Streaming NDF offering will be the credit models that are available to buy-side market participants. As noted previously, a lot of the growth in NDF trading is coming not from speculators but from buy-side firms with natural business interests in local markets. As such they need to access NDF liquidity via ECNs rather than central limit order books (CLOBs) as they often don't have the credit relationships in place to trade via the latter.

This is why at 360T we have deliberately structured our Streaming NDFs offering to support bilateral credit arrangements, prime broker (PB) intermediated trading and offer the ability to utilise a credit hub/ CCP. This provides the maximum flexibility for accessing this liquidity and enables us to bring together a very diverse range of participants together in one place.

Another key issue is the geographic reach, distribution, client base and presence of the venues available. This is because to have a truly heterogeneous cross-section of natural business interests present, which leads to a better NDF marketplace, platform providers need to be able to connect a wide array of local firms in onshore markets with offshore ones from across the globe. Hence, 360T has spent over 20 years building a diverse, global franchise which already today enables 350 organisations across 35 different countries to trade more than 175 different NDF currency pairs.

When it comes to NDFs, regulation is also a vital consideration. That is why at 360T we offer access to Streaming NDFs both OTC and via our fully regulated Swap Execution Facility (SEF) in the US.

Ultimately there's no one single factor that will determine the successful Streaming NDF liquidity pools. Instead, it will be about which platform can offer a variety of credit models, a diverse ecosystem of market participants, global reach and support, a regulated trading environment and flexible, high-performance technology.