How Technology is Set to Change FX Trading

Muhammad Zulfadzlie bin Zulkifli, CEO Malaysia at 360 Trading Networks Sdn. Bhd., highlights how FX trading desks can leverage technology to deliver material benefits to their businesses.

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At 360T we see a number of factors which are driving more firms in Malaysia to adopt new FX trading technology.

One of these has been the pandemic which, by forcing companies to operate with their staff in a decentralised environment, meant that in many cases technology was required simply to maintain their regular FX trading capabilities.

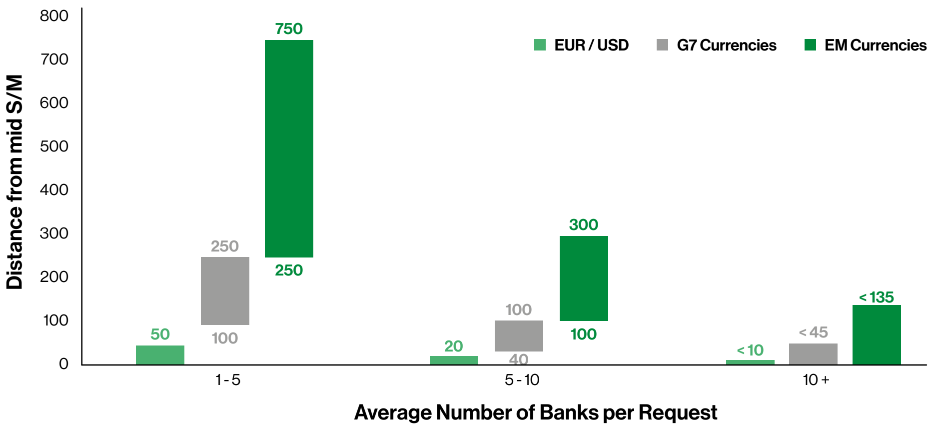
Moreover, this scenario pushed more firms towards online trading solutions because it was logistically impractical (if not impossible) to supply everyone working from home with the hardware or terminals that they would normally have access to in the office.

Another driver for adopting new technology is productivity. On the buy-side, institutional trading desks tend to be structured in a very lean manner while many corporate treasurers are being asked to handle larger FX flows without being given more staff to help them manage this. In both instances, implementing new FX trading technology can function as a productivity multiplier by delivering many different efficiencies around execution which then allows the same number of people to trade more.

Cost reductions are, perhaps unsurprisingly, also an important consideration for these firms. This is why we see a growing interest in electronic trading platforms, such as 360T, which enable firms to quickly and easily put prices from multiple dealers into competition in order to improve the pricing they receive. And this isn't a theoretical benefit – the pricing improvements from competing trades electronically can be measured and quantifiably demonstrated (see figure 1).

Analysis of Cost Differentials for Competing Spot FX Trades

Figure 1: This chart illustrates that as firms compete their Spot FX trades amongst more banks, the pricing that they receive for those trades – in terms of distance from the market midpoint – tends to improve substantially. This trend appears most acute when firms are trading EM currencies.



Source: 360T internal data

Driving growth

An additional benefit for institutional investors who are subject to internal controls dictating that they need to access FX pricing from multiple sources and then trade on the best one is that these multidealer platforms create a comprehensive audit trail of all their activity, making it substantially easier for traders to transparently demonstrate that they adhered to these best practices around execution.

And on the sell-side we primarily see increasing competition as the main driver towards this type of new technology. For example, the fact the first digital banking licenses have been approved is presenting an opportunity for banks to upgrade their technology stack across their entire organisations – including FX – and technology can help them to achieve this.

The attractiveness of multidealer platforms specifically has already been demonstrated in other marketplaces across the world. By utilising this technology banks have the ability to access and potentially win trades from a broader swathe of clients, helping them to grow their overall FX trading business.

More broadly, technology can also be used to substantially reduce operational risks. Every manual process on the trading desk inherently creates a certain amount of operational risk due to the potential for human error or a fat finger incident. By shifting away from opaque, highly manual execution channels and towards electronic platforms both buy-side and sell-side firms can reduce the chances of a low probability but high impact mistake from happening.

Technology as an enabler

But executing via multidealer platforms represents a significant departure from the way that most of the Malaysian FX market trades today, and as a consequence there are some people who are hesitant to embrace them.

One reason for this is that people are concerned that implementing technology for FX trading will erode their human relationships. However, what we've found at 360T, based on over 20 years of experience operating in many countries all over the world, is that technology actually enhances relationships rather than replacing them.

This is because it doesn't remove the need for banks to talk to their clients, technology simply develops and deepens the conversation that they're having, enabling the banks to service these clients better.

So instead of spending time on the phone just quoting prices for vanilla FX products, bank salespeople can instead discuss with their clients how they might benefit from utilising additional products or services that the bank offers. And for the clients, executing these vanilla trades via an electronic platform frees up time for them to focus on more complex orders or other more value-add tasks on the trading desk.

Inevitable changes

Ultimately, we expect the advantages that technology delivers in terms of improved competitiveness, greater productivity, reduced operational risks and better overall returns will inevitably lead to greater adoption in the Malaysian FX market.

And because electronic multidealer platforms can provide all of these benefits with minimal technological or economical commitment on behalf of the users this is likely to prove the low hanging fruit which these firms gravitate to first.

Please do not hesitate to contact your local account manager for more information or contact us at info@360t.com · www.360T.com

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