Post-Discussion Report, July 2017

Future growth in foreign exchange is widely expected to come from Asia rather than traditional western hubs. Financial Institutions and infrastructure providers need to make sure they are ready.

Magnetic fields cannot be seen by the human eye, but they create complex, powerful forces that can pull large materials together and push others apart with equal strength. Similar forces are at work in the foreign exchange market, where a range of factors appear to be drawing increased trading to eastern hubs such as Hong Kong, Singapore and Shanghai.

Speaking at an executive discussion in London on July 11, hosted by The Realization Group and sponsored by Telstra and Equinix, industry participants agreed that the challenging political and economic environment in Europe and the US has created a tough dynamic for FX trading, and there is a strong case for participants to consider new opportunities in Asia.

In 2016, the Bank for International Settlements' triennial turnover survey found that average daily volume in global FX had contracted for the first time in many years, falling from $5.4 trillion in 2013 to $5.1 trillion in 2016. But during the same period, the combined share of the global FX intermediation of Tokyo, Hong Kong and Singapore rose from 15% to 21%, the survey found.

The apparent shift of FX business into Asia was greater than what some speakers at the event had anticipated, but it is a trend that is now forecast to continue. As the European Union (EU) and the UK negotiate the terms of Brexit and the Trump administration seeks to protect US national interests, Asia's trading hubs look set to become a more attractive outlet for FX business than London and New York.

What we learned

FX flows to the East

Given the constraints that have been imposed by the US Dodd-Frank Act, some participants are already believed to have relocated business to the more favourable regulatory environment in Asia. This trend could be further amplified next year as the recast Markets in Financial Instruments Directive is implemented in Europe, placing fresh burdens on trading within the EU.

While there may be a clear ‘push’ factor away from the West, it is not yet clear which eastern hubs exhibit the strongest ‘pull’ factor for FX flows. Twenty years on from the landmark transfer of sovereignty over Hong Kong from the UK to China, which drove some institutions to establish a larger dealing presence in Singapore, there is now a growing focus on the need to access the Chinese market, either onshore via Shanghai or offshore through Hong Kong.

But while Shanghai has ambitions to become a major financial centre in its own right, many banks continue to use Hong Kong as an easier point of access to the Chinese FX market, for legal and regulatory reasons. That may change in time, but participants agreed progress in China can be a very slow process, and progress is best measured in years rather than months.

In the meantime, Singapore remains a highly attractive regional hub for south-east Asia, and the Monetary Authority of Singapore has been praised for facilitating access to its financial market and making it as easy as possible for firms to set up their matching engines and associated infrastructure locally.

Not only do Singapore’s independent status and supportive government help to attract FX flows, but it also has well-developed infrastructure, with good schools and housing, that makes it a popular destination for young professionals and families. In Hong Kong by contrast, both the business and professional environment can be more difficult, which may have given Singapore the upper hand in recent years.

Advances in technology have certainly made it easier for firms to access new locations in Asia, but speakers felt that the majority of infrastructure continues to be located predominantly in the traditional centres of New York, London and Tokyo. Many participants would like to access new markets without investing in regional assets initially – what one speaker described as "seeking exponential growth without exponential spend".

In summary, attendees were left in little doubt that future growth in the FX market will come from Asia rather than the West, and the battle for supremacy will lie not, as in the past, between London and New York, but rather between Singapore, Hong Kong and Shanghai.

Data centres and trading infrastructure providers who can provide appropriate technology and business solutions in these new centres will be well positioned for this growth. While none of the lead speakers were prepared to throw their weight behind a single centre as a regional hub for Asia, the discussion ended with consensus that no provider can afford to ignore the influence that China will exert in the future.

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