REGIONAL e-FX PERSPECTIVE

# The Middle East –
## scope for growth in electronic FX

**There is still plenty of scope for growth in e-FX trading across The Middle East region and Richard Willsher reports on how leading providers are meeting the need for the benefits it brings.**

Although banks, brokers and buy-side clients in some Gulf States are well advanced and sophisticated in the use of e-trading platforms, elsewhere in the region their use is still in its infancy. Dubai and Abu Dhabi are home to numerous banks and brokers and are positioned at the crossover between Asian and European markets from where single bank and multi-bank platforms stream prices and draw upon liquidity. Yet there is less penetration in other states.

According to Bloomberg's Global Head of FX and Commodities e-trading Tod Van Name, "In the Middle East, the United Arab Emirates (UAE) is where we are seeing the most activity on our electronic trading platform, FXGO. This is where our clients are starting to fully embrace the many aspects of e-trading we offer, from request for quote (RFQ) / request for stream (RFS), and streaming to algorithmic orders, batches, and auctions." He adds, "FXGO is also experiencing major growth in Qatar, Oman, Saudi Arabia, Kuwait and Bahrain – across all player types, but more focused on the simpler execution channels such as trading on streaming executable prices and RFQ / RFS."

Bruno Guillome, 360T's account manager for the Middle East

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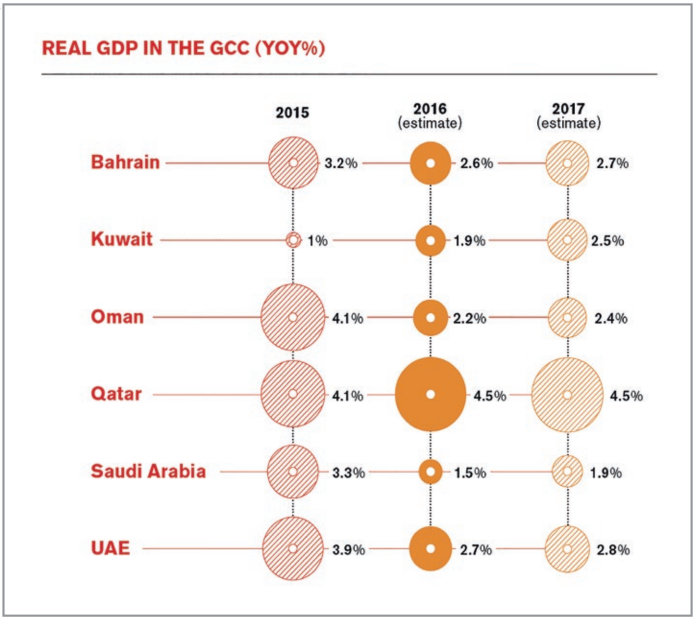


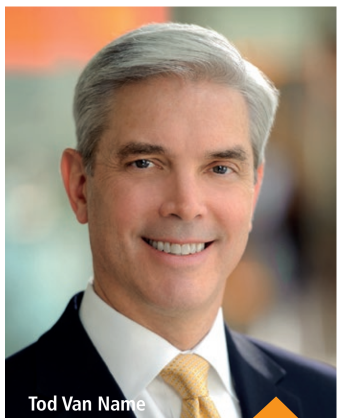

Source: Bloomberg

and North Africa, corroborates this view. "As compared to what we see in Europe, e-trading still has a lot of growth potential in this region. You would be surprised that there is still a lot of trading using e-mail and voice, based on strong personal relationships. The biggest potential that we see is in Saudi Arabia. It is the biggest market in the region and having recently opened up its markets to foreign investment we expect a large growth in the transition from traditional investing to e-trading, coming more in line with their GCC peers . Some of the banks still rely on manual processes which bare operational risk and cannot provide the best execution outcome in terms of price. So it is a time of change for them and we see a lot of banks investing in new back office systems and they will need a state-of-the-art and flexible electronic trading system that will feed into international trading environments. So this will lead to further changes in the trading of FX in the coming years."

### BUY-SIDE LEADS

Voice and e-mail trading are still relatively common among some corporates and their local banks. However large corporations and institutions, such as several of the Middle Eastern sovereign wealth funds, are already well wired into international standards of e-trading.

"We've seen in the Middle East, with its high dependency on oil, various government authorities, particularly in the UAE/Qatar, diversify investments into travel and aviation and as a venue for corporate businesses to setup head offices, not just for the Middle East alone, but stretching south into the time zone to include North and Sub-Sahara Africa," explains Yi Hahn Chin, Head of CEEMEA Corporate eSales – CitiFX Pulse. "Such major corporations, in view of tax implications, have been increasingly setting up regional treasury centres to strategically manage risks in those geographies. E-FX therefore is increasingly playing a major role to help these corporates achieve the degree of efficiency required to manage these regional businesses."



Tod Van Name

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Consequently, because local banks are keen to cement their share of the buy-side demand, especially among second tier corporates, they are pushing hard to improve their technology.

Bruno Guillome says, "Many of the local banks in the region are in a race to invest into or develop their own platforms. These are easily integrated to existing systems and aim to attract greater flows from regional clients (large corporates or SMEs). White labelling has also become a key topic of conversation in the GCC . With the introduction of their own electronic platforms, banks are able to attract more business in a very cost efficient manner without the need for additional headcount."

Buy-side clients typically trade spot and forwards in G10 and the GCC currencies for their corporate needs and hedging. But their needs, partly driven by the offerings of their banks and the multibank platforms, include pre and post trade functionality that integrates with their systems.

"My guess is that every bank in the region is now on a multibank portal to access their liquidity," hazards Vishal Kapadia, Flextrade Vice President for business

Bruno Guillome

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development in the region. “They are all looking at getting APIs to distribute FX prices to their institutional and corporate clients electronically. There is definitely a big demand for pre and post trade toolsets. The electronic platforms providers are responding to the need to have a lot more in the way of analytical tools, TCA etc. So it’s about how technology providers can provide the capability to produce certain reports that can help the banks and the regulatory authorities. The demand is large and it’s growing all the time. They want to connect clients and bank systems so they can have a complete automation cycle. That is way things are moving though it may take a few years to get there.”

For local banks, the offer of capabilities in the GCC currencies combined with technology offerings are ways they aim to differentiate themselves but there is plenty of competition between them and the international banks.

## SHARI’AH AND BEYOND

Speaking with market participants it seems that while there is demand for Shari’ah-compliant products, it is not that strong nor well developed. “A number of committees, such as Dubai Islamic Economy

# Retail FX perspective

**Trading foreign exchange has seized the imagination of retail clients in the Middle East. In the absence of equity markets of the size, depth and liquidity seen in Europe and North America, FX is regarded by an increasing number of investors as a high risk but potentially high return asset class in which to trade. Johny Abuaitah, CEO of Windsor Brokers a leading Retail FX provider in the region, explains about the growth and popularity of online FX trading across MENA and the technology that is now available to support retail investors in their trading activities.**

**What factors are strongly influencing the current growth of retail FX trading across the Middle East?**

**JA:** Ten years ago, investors from the Middle East were primarily interested in real estate and local or regional equity markets. Several factors however contributed significantly to the increased interest in retail FX trading. After the 2008 global financial crisis and the drop in oil prices thereafter, investors from all over the world and not only the MENA region started seeking alternative investment opportunities, competitive trading conditions and potentially higher returns. Margin trading of FX became popular rather quickly as it enabled trading of larger contracts with a fraction of the investment. The MENA region’s strategic geographical location and time zone is also a big advantage, as it allows investors to trade the FX market opening hours of the Far East and the FX market closing hours of the EU, within the same trading session. Moreover, the availability of a variety of desktop, tablet and mobile platforms also allowed investors to expand their trading options.

**What trading products and instruments are particularly popular with retail investors in the region?**

**JA:** Investors from the region are mainly interested in trading major currency pairs, bullion, and crude oil, as well as US, EU and Far East contracts for difference (CFD) stock market indices of blue chips or single stocks of strong, well established corporations).

**What issues generally influence retail traders in the Middle East when they look for a suitable margin FX broker to work with and what attributes are considered particularly important?**

**JA:** Reputation, regulation and licensing by strong regulatory authorities, security of funds and reliability are of utmost importance, in addition to understanding the local culture with a 24/5 support in the Arabic language.

**Do all countries in the Middle East offer the same opportunities for online retail FX trading or are some becoming “hotspots” of activity more than others?**

**JA:** Most countries of the Middle East are growing economies and therefore present great prospects to brokers, depending on their approach, market segments and what products and services are on offer. To determine market opportunities, it is also important to conduct thorough research including, among other things, per capita income, educational background, Internet infrastructure, local regulations and monetary policies.

**Windsor Brokers has won numerous awards as one of the best brokers in the MENA region. How important has your technology and trading platforms been in helping you to win the approval of traders and investors across the Middle East?**

**JA:** Technology has played a vital role over our 27-year history and experience in the financial markets has provided us with the means to offer our products and services to clients and business partners. In 2003 we were the first to offer the Metatrader trading platform, opening up the world of margin trading at a time when physical trading was predominant in the region. New versions followed in due course. In 2013 we introduced GWAZY - an innovative trading platform and simple trading method to meet the trading needs of beginners and in 2016 we are planning to move towards a new dimension by introducing the AMO (All Markets Online) platform. Clients will have direct market access to World Financial Markets and trade over 620,000 instruments that include Stocks, ETFs, Bonds, Options, Funds, Warrants, Structured Products, FOPs and SSFs through US, European and Asia-Pacific exchanges.

Windsor Brokers was one of the first to offer the Metatrader trading platform in the Middle East

As private wealth across the region increases, brokers and technology providers are looking to educate more investors in how to trade foreign exchange securely and efficiently. At the same time electronic platforms are developing greater functionality and product offerings. It seems likely therefore that retail FX trading will continue to grow across the Middle East region for the foreseeable future.

Development, have been set up in the region to focus on Shari'ah compliant offerings and they are looking in detail at e-FX," according to Iskandar Najjar, Managing Director, Head of MENA Sales at Abu Dhabi based ADS Securities. "They are still in the early stages of building a fully Shari'ah compliant e-FX solution, but I believe this is a very exciting space in which will see considerable growth in the next few years. I anticipate a wave of investment will support the development of this product."


Saudi Arabia has very significant e-FX growth potential
Photograph: Fedor Selivanov / Shutterstock.com

Bloomberg's Tod Van Name says that FXGO supports trading of Islamic Deposits on an RFQ basis alongside traditional FX and money market instruments. "We are getting more demand for Shari'ah-compliant FX instruments on FXGO and will continue to develop new solutions for the community."

Main concerns seem to be around the view that longer-term products including forwards, swaps, options and futures are regarded as speculative. At the short end, spot trading for everyday business use that is not speculative in nature, would not be regarded in this way. In any event Shari'ah products are still a small, if growing, subset of the market.

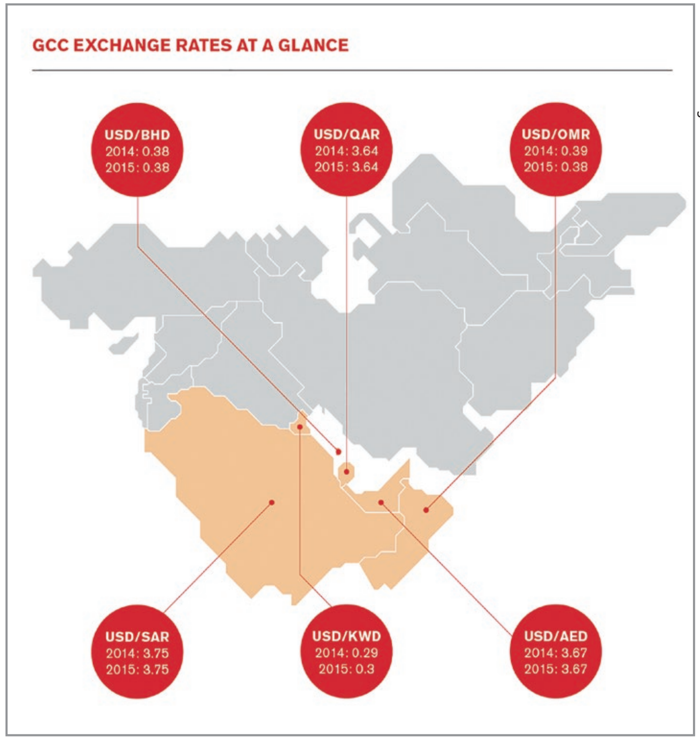
## INSTRUMENTS

Demand for currency instruments is, in general, following a global pattern however. "Recently we have seen a move towards Asian pairs, particularly as the links between the region and the Far East continue to grow, which increases demand for products like NDFs," said ADS Securities' Iskandar Najjar."In the same way that traders in London are moving to the Yen as a safe haven currency, we will see this trading pattern mirrored in the region. There is a tendency for regional investors to look at global macro fundamentals and invest based on these. We designed our platform, OREX, to be multi-asset so that we could anticipate and offer a full range of tradable products."

Flextrade's Vishal Kapadia agrees, "There is a big demand for NDFs in emerging market currencies which are cash settled. There are lot of Indian and Asian trading houses based in the region and they want access to the cash settled NDF currencies because their home currencies are highly restricted and regulated. There is a good demand for the DGCX INR futures contract. In terms of structured products and options this market is quite sophisticated, targeted options and exotic products but these are one-off bespoke products. Corporate treasurers are quite sophisticated and do look for more innovation and different permutations and combinations to help them reduce their hedging costs and to get upside when the market goes in their favour." He stresses however that these not traded electronically but transacted bi-laterally with banks and for them they represent high margin business.

## PRIME BROKERAGE AND REGULATION

Meanwhile both banks and corporates in the region are having difficulty in accessing all of the credit lines that they would like. The large international providers have in many cases reduced their activities in this area of the market since the financial crisis. This has allowed other players to step in and develop their own prime banking offerings. ADS Securities, backed by a strong capital base, is one of these. "I believe the prime-of-prime option in the region has a lot of room for growth, especially for a local player that can customise their offering for banks, corporates and family offices," says Iskandar Najjar. "The issuing of netting and the



Source: Bloomberg


Yi Hahn Chin

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Vishal Kapadia

requirement to post significant collateral to secure trading lines will always be a problem, but companies like ourselves, with very high capitalisation, are in a great position to help facilitate this market area."

This view points towards issues of regulation, including capitalisation levels and adequate margining and transparency in risk taking and accounting. While the Middle East region is not in the vanguard of regulatory developments it is following the global trend.

"The regulatory regimes are becoming more in line with international standards, which we see as very positive for the region," Najjar continues. "The more that regulators look at and advise on FX and related products, the greater the confidence in FX as an investment asset class, and the greater the flows which will come into this area."


Iskandar Najjar

Bloomberg's Van Name agrees.

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"Regulatory changes continue to be a significant driver of transparency and best execution globally. There are differences in the implementation of those concepts but thematically those remain the key points. Our mission is to use the power of technology to bring transparency to the capital markets and ensure that the global marketplace is efficient, fair, dynamic and liquid. Therefore, we are trying to be a resource to the regulators and market participants around the world to offer help with various implementation challenges."

In summary then, while the Middle East region lags Europe and North America, there is a strong drive for both the buy-side and sell-side to embrace e-FX trading. Some markets in the Gulf, led by Dubai, Abu Dhabi and Bahrain are further along the curve. Others, of which Saudi Arabia is by far the largest, have significant growth potential. This potential spans not only e-services catering to the needs of institutions and corporates but also to the retail community, where FX is an attractive investment asset class. In the wings, waiting for more favourable times, Iraq, Syria and, above all, Iran have yet to embrace e-trading. When they do, the e-trading scene in the Middle East will become an even more vibrant development opportunity, as global e-trading takes root there and prospers, as it inevitably will.