Retail FX: Market Overview

ECB Briefing

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**Coverage:** Retail brokerage issues across all asset classes—wealth management practice

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Agenda

1) Market Structure
2) Key Statistics
3) Customer Demographic Profile and Preferences
4) Major Industry Trends
Retail FX: Market Structure
• Retail FX Market Participants

  • Global brokers (n>50)
  • Regional brokers (n>50)
  • Affiliate brokers (n<20)
  • Global banks (n<10)
  • Regional banks (n>100)
  • Securities brokerages (n>20)
• Retail FX Market Participants, continued

• Technology providers (n>50)
• FX liquidity providers (n>100)
• FX prime brokerage providers (n<20)
• Major regulatory bodies (n<15)
Retail FX brokerage setup. White-label new entrant
• New entrants. Compelling reasons favoring white-labeling (licensing) solutions over in-house solutions:
  • High mission-critical and other technology costs
  • Constantly changing bespoke liquidity protocols
  • High learning curve for FX retail brokerage:
    • Competitive landscape
    • Front-end technology
    • Middle- / back-end technology
    • Customer preferences
Retail FX: Key Statistics
Volume increased with economic turmoil
• 2006 to 2008 was a banner period

Total Daily Trading Volume Estimates
10 FX brokers profiled, 2000 to 2011
(in US$ billions)
Source: Aite Group, selected brokers

FX Firms profiled:
Saxo Bank
FXCM
Oanda
Gain Capital
GFT
Dukascopy Bank
MIG Bank
FX Solutions
IBFX
FXDD

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• Japan: Lower FX volume/trader, many traders
• Leading Japanese FX Brokers

![Graph showing the client count and deposits of leading retail FX brokers in Japan](image)

Source: Aite Group, selected brokers

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Japanese new-entrants drive most growth since 2009
• FX-only and brokers using affiliate programs attract the most online traffic
• Select FX brokers outside of Japan
• Retail FX web visitor heat map*

* Dark areas denote higher numbers of retail FX online visitors
Europe accounts for 35% of retail FX web traffic
Customer Demographic Profile and Preferences
Retail FX trading attracts a larger minority of female participants than what is seen for stock trading.
• Retail FX brokers tend to be less affluent than stock traders
Retail traders see spot FX as an attractive market for periods of economic uncertainty.
- Retail FX traders have high return expectations as they enter the market; EU traders are the most sanguine.

**Q. What Monthly Return Do You Believe That You Can Achieve Trading Currencies? (n = 73)**

*Source: ForexDatasource, Aite Group*

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<thead>
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<th>Return Range</th>
<th>Americas</th>
<th>Africa</th>
<th>Asia</th>
<th>Europe</th>
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<td>5%</td>
<td>19%</td>
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<td>5%</td>
<td>13%</td>
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<td>1% to 2%</td>
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<td>18%</td>
<td>6%</td>
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<td>57%</td>
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<td>More than 10%</td>
<td>42%</td>
<td>100%</td>
<td>32%</td>
<td>38%</td>
<td>43%</td>
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• Europeans prefer a leverage between 50:1 to 100:1
Major Industry Trends
• FX social investing (copy-trading)

• 5 major proponents:
  • Currensee (U.S.-based, U.S. registered introducing broker)
  • eToro (Cyprus-based, registered introducing broker in U.S., Europe, and Australia)
  • ZuluTrade (Greece-based, U.S. registered introducing broker)
  • Tradency (Israel-based, U.S. registered introducing broker)
  • Collective2 (U.S.-based, U.S. registered introducing broker)
• FX social investing (copy-trading)

  • Social investing firms redistribute the trading success of a group of select traders/trading systems to benefit passive FX investors, using trade replication technology

  • Passive investor can:
    • Turn on/off trade replication
    • Select trade expert/trading system to follow
    • Manage the level of risk assumed
    • Keep 100% control of funds in account
• FX social investing (copy-trading)

• A well-structured social investing program can benefit millions and be a major source of growth for retail brokerage across asset classes
• Increased regulatory awareness of retail FX in most jurisdictions

• U.S. banking and securities regulators pass retail FX rules to enable its registrants to participate in retail FX

• Lower maximum-leverage levels are set in various jurisdictions, ranging 25:1 to 50:1

• U.K. regulators administer fines even as more retail FX volume shifts from the U.S. and Switzerland to London

• Select national regulators in Europe are asking retail FX brokers to demonstrate better operational expertise

• The Cyprus-based FX brokerage business is robust and has been largely unaffected by regulatory changes elsewhere
• The decision of U.S. banking regulators to allow banks to participate in retail FX will:

  • Contribute to the market’s gradual institutionalization in the United States

  • Make it easier for new major markets like China, India, and Brazil to pass competitive retail FX rules in the coming two years
Online trading demand in the future will be more concentrated in Asia and Latin America.
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