FX SWAP MARKET

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GLOBAL FX MARKET EVOLUTION 1

Contributors to Volume Increase

- Electronification: 75% of FX swaps & forwards
  - Algo execution, regulatory constraints (best execution, MIFID...)

GLOBAL FX TURNOVER

April 2019
$6.6 T/day

vs

April 2016
$5.1 T/day

Source: BIS Quarterly Review /December 2019
FX Market Electronification

Global FX Volumes 2019 (m$)

Source: BIS Triennial Central Bank Survey
MAIN DRIVERS FOR THE USE OF FX SWAP

Sell Side investment Banks are trading FX swap for:

1. Balance sheet related funding needs

2. Offsetting hedge of an existing position (overlay, Risk Management, …)

3. Cashflow hedging (portfolio management)
Trading volumes are still dominated by financial institutions

Source: Expand Research
CHALLENGES & RISKS

1. Regulatory complexity and spread compression
   - The non-bank market makers who aren’t under the same regulatory pressures than sell-side investment banks are becoming more attractive to buy side

2. Intraday Liquidity constrains
   - Multiple CLS balances management
   - No global settlement platforms for non liquid currencies to better manage intraday liquidity

3. Increased cost structure:
   - compression for cost of capital reduction
   - need more mutualisation cross the street (outsourcing of post trade services, improve operational efficiencies, …)
OPPORTUNITIES

1. **FX Clearing**
   Clearing FX Swap & Forward could solve the credit check question and drive the liquidity on new CLOB

2. **New liquidity pools**
   For Swap & Forward to shift the business to be more electronic

3. **Algo offering**
   Extend the offers developed for spot and NDF to FX swap
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