

Singapore's FX Take Off

How Singapore aims to become the price discovery venue for foreign exchange in Asia



Singapore's FX Take Off

How Singapore aims to become the price discovery venue for foreign exchange in Asia

In 2018 the Hollywood movie Crazy Rich Asians became the highest grossing romantic comedy for more than a decade. The film tells the story of the culture clash between Asian-American Rachel Chu and her boyfriend's "crazy rich" family in Singapore. When Chu arrives in the country she is amazed by the luxury of Changi Airport in comparison to New York's JFK. However, she should not have been surprised as Singapore was rated ninth for household wealth per adult in last year's Global Wealth Report from Credit Suisse, which is reflected in its fast-growing financial markets. The Monetary Authority of Singapore set out a transformation map for financial services to position the country as a leading global financial centre in Asia by 2020, through innovation, adopting new technology and upgrading skills.

*In this Financial Markets Insights report, **Matthew Lempriere**, Head of Asia Pacific at BSO; **Jason Wang Kee Huat**, COO of Spark Systems; **Scott Moffat**, Managing Director, Asia Pacific at LMAX Exchange; and **Jon Vollemaere**, CEO and Founder at R5FX, talk to the Realization Group's Mike O'Hara and Shanny Basar about how Singapore is becoming a growing force in global FX and the opportunities opening up for financial firms.*



Introduction

The Monetary Authority of Singapore (MAS) has set ambitious targets of annual growth of 4.3% for financial services and the creation each year of 3,000 jobs in the sector and 1,000 jobs in financial technology.

To build its FinTech ecosystem, including new technology for foreign exchange electronic trading, the country began to host a festival each November. The third Singapore FinTech Festival in 2018 attracted nearly 45,000 participants, according to MAS.

Jacqueline Loh, Deputy Managing Director at MAS, gave an overview of the authority's strategy in a speech last year. She said Singapore was already ranked third globally for FX volumes after London and New York.

"As Asia's FX trading needs grow, and as electronification of Asian FX trading progresses, there is a need for a more efficient price discovery venue where pricing and matching of FX trades take place," added Loh. "We aim for Singapore to be the e-trading ecosystem in the region. We are encouraging and working with key FX players and platforms to anchor their e-trading facilities, matching and pricing engines in Singapore."

Loh said a strong pipeline of players of global tier one banks, non-banks and platforms are already looking to set up trading engines in Singapore and cited XTX Markets and home-grown Spark Systems as first movers.

Jason Wang Kee Huat, Chief Operating Officer of Spark Systems, says that Singapore is already a centre for trading non-deliverable forwards in Asia. NDFs are derivatives that are used to hedge or speculate against currencies where exchange controls make it difficult for overseas investors to make a physical cash settlement, for example, the Chinese renminbi. Wang Kee Huat gives the examples of NDFs in Philippine peso or Thai baht, which are traded by desks in Singapore rather than in Manila or Bangkok.

Wang Kee Huat also explains how the growth in trading volumes of Indian rupee versus United States dollar futures could be used to boost the FX market in Singapore. The futures contract was first launched by Dubai Gold & Commodities Exchange before being offered by the Singapore Exchange.

"I've seen how the Indian rupee exploded in terms of trading volumes because of the opportunities created by the futures contract, which is traded on-exchange," he says. "When the Singapore Exchange offered the futures, volumes rose for over-the-counter NDFs, so it is all interlinked."

He adds that Singapore already clears the largest volume of Indian rupees globally: "I think with that, they'd now like to try to replicate that success in the FX space".

"Technology is technology, whether it's applied to solving problems in finance or in the internet space"

Jason Wang Kee Huat, Spark Systems



The last piece of the puzzle for Singapore to meet its global ambitions is to develop trading infrastructure. Wang Kee Huat highlights that Google and Amazon have both set up campuses in Singapore, which will develop the necessary talent. "Technology is technology, whether it's applied to solving problems in finance or in the internet space," he says.

Scott Moffat, Managing Director Asia Pacific at LMAX Exchange thinks Singapore's FX market infrastructure has caught up with Tokyo but the city has not yet become a price discovery hub for Asia. He explains that it is currently expensive for firms to price a local Singapore bank from Tokyo, London or even New York without pricing in latency.

"Part of the MAS' plan is to encourage companies out here to try and move their pricing engines out to Singapore with tax breaks and help with costs," Moffat adds. "They are encouraging both platforms and liquidity provision."

However, Moffat believes it is still expensive and a big risk to make the move. He questions whether the opportunity in Singapore is large enough for all the banks to move their risk desks from Tokyo.

"You need low latency connectivity, high reliability and connectivity. Without these three things, no one will ever shift"

Scott Moffat, LMAX Exchange



"The key question is what problem are we solving? If all the asset managers, hedge funds and regional banks say they want to match in Singapore, then you are providing a solution," Moffat adds. "You also need low latency connectivity, high reliability and connectivity. Without these three things, no one will ever shift."

In contrast, liquidity can move quickly. LMAX, for example, can launch an exchange in three months. “We have already built five exchanges, including our digital exchange,” says Moffat. “All the big firms connect to us globally and our model allows bilateral clearing, regardless of where you match.”

Moffat also expects FX liquidity to continue to consolidate as exchanges have acquired trading platforms. In 2018 CME Group purchased NEX, which includes EBS, the giant cash FX market, and Germany’s Deutsche Börse acquired GAIN Capital’s US ECN to expand its existing foreign exchange unit. Pan-European exchange operator Euronext also bought FastMatch in 2017.

“FX is moving to a fairer and more transparent marketplace since the Foreign Exchange Global Code and MiFID II, so it is no surprise that exchanges are looking to get into the spot space,” adds Moffat.

A global code of conduct for FX was developed by the Bank for International Settlements following a string of scandals in the market. The Code establishes a common set of guidelines for good practice and was launched in 2017, with MAS becoming a signatory the following year. MiFID II went live in the European Union at the beginning of 2018 and extends best execution requirements into a number of new asset classes. Although spot FX is not included in MiFID II, many firms are voluntarily including FX in their best execution policies on a global basis.

According to Moffat, there is also more electronic trading and more customers looking for algo execution, which presents further opportunities for exchanges. However, the analysis of electronic trading needs increasing amounts of data.

“All the post-trade analytics and the move to transaction cost analysis requires a lot of data,” he says. There is a heavy lift there as well.”

Moffat concludes that despite these hurdles, Singapore is doing everything correctly in order to attract business.

“Location-wise it’s good for the rest of Asia,” Moffat says. “It has good infrastructure, low latency, is English-speaking, and has a good legal structure and tax benefits.”

Jon Vollemaere, CEO and Founder of R5FX also questions whether Singapore has really taken FX volumes from Tokyo. “I think there is both a decline in Tokyo activity as well as an increase in Singapore – you have to look at both”

“There is both a decline in Tokyo activity as well as an increase in Singapore – you have to look at both”

Jon Vollemaere, R5FX



Vollemaere still expects FX volumes in Singapore to increase due to the various MAS initiatives. “We were one of the FinTech Festival Award Finalists and were very impressed with both the attendance numbers and also the full weight of Singapore support for the event – everything from the national carrier to the banks, the event centre to the level of speakers was world class. There wasn’t a spare hotel room in town”. But he also sounds a warning about potential long-term competition from Shanghai.

“Singapore numbers will continue to rise,” Vollemaere states. “However, the moment Shanghai allows full onshore/offshore access, that has the potential to politely push Singapore out of the way. But that is not going to be next year - it could take 10 or 20 years.”

Vollemaere believes that the prospect of competition from Shanghai is why Singapore wants companies to physically relocate there. “The incentives require senior managers, staff and decision makers to relocate to Singapore,” he says, adding that financial firms are more likely to relocate if an infrastructure provider is able to seamlessly move them from another centre. “There is a great deal of buzz about Singapore at the moment. I’ll be in town for at least a month this quarter – and it’s not because of the chilli crabs”.

Matthew Lempriere, Head of Asia Pacific at BSO agrees that MAS' transformation plan and the annual FinTech Festival have boosted the development of Singapore's FX market. "They are encouraging new technology adoption across the front, middle office and back offices," he says, adding that that MAS has also been very forward thinking and active in accommodating the rise of new cryptocurrencies, which could become an important segment of the FX market. "There's a lot of crypto places opening up in Singapore," he says.

The role of voice trading in the FX market is changing too, with technology becoming increasingly important. "It's now used much more as a sales and relationship tool rather than a trading tool," he says.

"You need to be flexible enough to adapt quickly and connect to the right markets and data centres in this fast-moving environment"

Matthew Lempriere, BSO



Lempriere believes that FX in Singapore is becoming more and more important and firms can now find pools of liquidity that did not exist previously, but in order to take advantage of these new opportunities, firms need to ensure they have an appropriate technology infrastructure in place, with fast connections such as those provided by BSO between Singapore and other global FX trading centres, including London, New York and Tokyo. "You need to be flexible enough to adapt quickly and connect to the right markets and data centres in this fast-moving environment", he says, adding that BSO's technology also meets the key customer requirements of high performance, stability, access to cloud services and scalability.

Other factors influencing the growth in trading volumes according to Lempriere are the availability of a highly educated workforce and a business-friendly legal framework based on English law. "If you throw all that into the mix," he says, "it's a perfect storm for Singapore."

Conclusion

Singapore's Changi Airport is paving the way by developing plans to keep growing despite already being one of the busiest airports in the world. The airport's new Jewel lifestyle destination featuring a giant greenhouse dome and a 40 metre-high waterfall is set to open in early 2019. Terminal Five is being designed by architects Heatherwick Studio and Kohn Pedersen Fox to increase capacity by 50 million. MAS will be doing its best to ensure that its financial markets, including foreign exchange, are equally successful against regional competitors such as Hong Kong, Tokyo and potentially Shanghai, bringing benefits to both home-grown and global market participants.

For more information on the companies mentioned in this article, visit:

www.bsonetwork.com
www.lmax.com

www.sparksystems.sg
www.r5fx.co.uk



Financial Markets Insights from The Realization Group, is a series of interviews with thought leaders in financial and capital markets. The purpose of the series is to provide exclusive insights into industry developments, through in-depth conversations with C-level executives and key experts from banks, exchanges, vendors and other firms within the financial markets ecosystem. For more information, please visit www.financialmarketsinsights.com



Other topics in the series:

- All on the Same Page? Effective Strategies for Successful Innovation in Capital Markets [download](#)
- Capture, Correlate, Analyse: Deriving value from electronic communications data [download](#)
- Changing landscapes: Electronic trading picks up the pace in commodity markets [download](#)
- HPC strategies for financial services: The playing field widens [download](#)
- Bridging the Gap: New Approaches to Creating a Culture of Innovation [download](#)
- Systematic Internalisers – Data holds key to challenges and opportunities in MiFID II era [download](#)
- Alpha profiling, strategy toolkits, broker scorecards: The keys to best execution? [download](#)
- Beating repetitive strain: Value-added services in post-trade [download](#)
- AI and Deep Learning in Risk and Investment Management [download](#)

The Realization Group is a full service marketing and strategy consultancy specialising in the Financial Services. Our team contains industry practitioners from both the trading and post trade disciplines and we have expertise equally in the on-exchange and OTC trading environments. We apply our comprehensive set of marketing programs and wide-ranging media and business networks to complement the business development requirements of our client organisations.