RIDING THE E-COMMERCE WAVE

What is exotic in the world of electronic dealing today will be commonplace tomorrow, says Alex Johnson

In line with this year's focus on 'growth' at the ACT Middle East Conference, it struck me that one of the fastest growth areas in the treasury market continues to be the e-commerce sector – especially over the past year. But what are people talking about and where does it go from here?

The use of electronic dealing in the Middle East is now very widespread. Treasury departments in almost every Gulf Cooperation Council (GCC) country have embraced e-commerce for trading in plain vanilla – namely FX spot and forward – transactions. This is because they recognise that e-commerce allows better analysis of trade costs, better oversight of FX executions and better control for management in terms of reporting, audit and compliance.

And this acceptance extends beyond the large multinationals. Most corporates that should have embraced trading technology have done so, including many local and mid-sized organisations.

So what do treasurers want next from their electronic dealing platforms? In this regard, the feedback is consistent. They want wider product trading – for example, non-deliverable forwards (NDFs), options and cash products; greater use of functionality (netting, block requests, internal capture and control of interdepartmental flows); and more vertical integration with existing in-house systems.

Meanwhile, greater technological knowledge within treasury departments and changes in the regulatory environment are also pushing innovation in corporate treasury. Treasurers understand the broader product range better; many have come from a banking background or accept previously 'exotic' products as normal hedging tools.

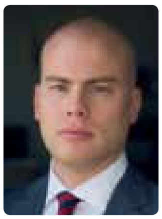
Regulatory changes, such as the Dodd-Frank Act in the US, are moving even interbank flows in these products away from single-dealer channels (bank proprietary platforms) onto multibank venues. Use of NDFs and options, in particular, has seen a sharp increase recently. Globally, our FX option volumes are up by 400% in the past year alone, and no one can doubt the usefulness of options and NDFs to a true trading business that has to actively manage flows or one that sources business from the emerging-currency regions.

On the NDF front, increasing numbers of businesses in the Middle East region are transacting in more exotic currencies. Many suppliers in China, for example, offer discounts to customers paying in onshore renminbi rather than US dollars. But then how does a corporate in Dubai, Riyadh or Doha manage this exposure where perhaps a lack of foreign currency accounts, and even a missing correspondent bank, presents itself?

Some banks have really woken up to the opportunity and are proactively offering customers instruments such as NDF and option products. Here, you have to make sure that you are getting an independent market valuation. Although the usual market data systems are helpful, for some illiquid currencies the price on the screen is not the 'real' price in the market. Make sure you always request firm pricing and preferably from more than one bank. As banks now enable automated pricing for options as well, this is also a product stream that is reaching a level of standardisation.

In the GCC, corporate treasurers do seem to see the benefits offered by vanilla derivative products such as zero-cost risk reversals (buying a call and selling a put, thereby enabling the call leg to be paid for by the put leg income). This reflects the better understanding and acceptance of such products.

The ACT is an excellent source of information, education and networking opportunities that we should all use to help keep us updated. But to benefit we also have to act on what we learn. What is clear is that something that is exotic now is likely to be commonplace in a few years' time. Be prepared.



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