

IN BRIEF

INDUSTRY NEWS ROUND-UP

FX JUST KEEPS ON GROWING, SAYS TOWER GROUP

The foreign exchange market just keeps getting bigger and financial services industry consultancy Tower Group thinks it will grow to reach \$5 trillion per day by the year 2010.

Between 2004 and 2006, average daily trading volume grew by 26% in London and 20% in New York, Tom Price, senior analyst in Tower Group's securities and capital markets division, said at the firm's annual conference in Boston last month. "And it is only going to get bigger, driven by new players such as hedge funds."

Electronic trading is increasing, led by the buy side. "The buy side got off the phone," said Price, who estimated that half of its trading is now being done electronically.

The advent of the electronic communications network model has given rise to the increased usage of algorithms, added Price. Currently traders use them for pricing to clients, the better the client the better the price, or for automated



hedging where if the limit price is hit it triggers an order.

But Price expects that there will be even more uses of algorithms in the future, once dealers realise that offering them to clients doesn't threaten their business. He said the introduction of new algorithms like Merrill Lynch's FX Clone (Profit & Loss, April 2007),

which replicates hedge fund strategies, will appeal to the buy side.

"The ship is slowly turning; the buy side will adopt algorithmic and aggregation tools, and the sell side will have to adjust their models," said Price.

Other changes in the FX market include the slow erosion of Swift messaging in favour of Continuous Linked Settlement service. "Swift messaging is declining, being replaced by CLS. There is still risk exposure with the traditional bilateral settlement via Swift, CLS eliminates the risk," said Price.

The growth of fund account participants using CLS has been astronomical, he said, from seven in March 2004 to 705 in March 2006.

Price expects the number of multiple execution venues to shrink soon, "There are too many choices." But he thinks the new exchange-based model that FXMarketSpace has chosen "could be the next phase in ECNs."