Moving towards a more resilient FX market

After the first 45 days of the pandemic, it’s clear that the capital markets met volatility and turbulence with resilience. As we take stock of this new environment, the conversation will shift to how we recover and adapt. Therein lies the opportunity for FX market participants to re-evaluate their operational models.

What will the outcome of this be? Expect the successful firms to accelerate their digital transformation plans, while making changes that ultimately enhance their ability to serve clients.

THE MARKET IS ABSORBING THE LESSONS
The concept of resilience theory is an astute comparison to how the FX market is faring. Currently, we’re in what’s known as the absorptive phase. The focus is on our ability to absorb or cope with our new environment. The success of the industry’s business continuity and technology strategies has ensured much consistency in market operations, while helping trading teams get used to working dispersed.

FX trading desks are functional, but they’re not optimal. Those participants working remotely are operating, but not yet as effectively as they might be, for a multitude of reasons.

Teams have adapted as best as they can, creating home or remote setups that are relatively heavy duty. But now that volatility has settled, banks will want to prioritize. How can they make the most of a new environment, where the possibility of further isolation is a reality?

MOVING INTO RECOVERY
Just as traditional bricks-and-mortar firms have had to radically evaluate their business, the pandemic is accelerating the way capital markets firms look at their core operations. Strategically-minded firms will be taking stock of performance in the past months and identify areas of strength.

• Did we continue to engage effectively with our clients?
• Could we continue to effectively make markets?
• What about our risk management? Our operational capability? Compliance function?
• Are we overly reliant on a particular internal or indeed external resource?
• After identifying strengths, the self-reflection will move into efficiency – what’s our true differentiators and how can we best utilize scarce resources in an even more challenging business environment.

ADAPTING FOR FUTURE SUCCESS
The self-side institutions that emerge healthy from this pandemic will be those that move quickly through recovery and onto adaptation. They’ll be more willing to fundamentally rethink the capital markets value chain and how technology will drive the future of trading.

FX sales and client engagement are among those areas ripe for adaptation. Imagine a more connected, digital sales force, able to work from anywhere in an always-on manner – whether it’s desktop or mobile, at home, on the road or in the office. Now, imagine a sales staff with access to cross-asset, intelligent decision-support dashboards and workflow tools, that augment decision-making. This translates into insights that can help sales teams provide more impactful and competitive pricing and services to their clients. Instead of figuring out where the real sales and execution opportunities are, sales teams will have this information brought to them, cut above the noise. Additionally, clients themselves can have access to many of the same sophisticated tools, allowing for a degree of self-service that goes far deeper than what currently exists.

On the trading side, we can envision an operational infrastructure that goes beyond the work-from-home situations, with their limitations. Perhaps this could be banks seamlessly outsourcing their execution to a trusted partner bank. This could also be an intelligent auto-pilot system, with a smaller number of traders as the human safeguard.

The same goes with business models. Given the relative scarcity of resources, banks may choose to only make markets in select local currencies – or even foregoing market making, once again relying on a partner. The right technology partner will allow the trading desk to seamlessly blend on-site traders with automated trading capabilities and outsourcing to a number of more specialist market makers, all in a more efficient, resilient fashion.

To share an example of this potential - one of our global bank clients runs a segregated execution desk. Through the use of our order management and smart order routing solutions, the bank was able to seamlessly switch to a working-from-home environment. Order flow and execution are almost exclusively automated, allowing a small number of global staff to manage through the recent volatility without missing a beat. These capabilities could be expanded to accommodate nearly all of the scenarios above.

This is where operational and technological adaptation matters most. Do banks need to develop and run all of the core Foreign Exchange client, trading and risk systems themselves? Can they bank host and manage these solutions better than a specialist partner? The choice of technology partner has never been more important – a trusted partner that values long-term relationships, that has the product breadth, functional depth and operational capabilities to provide resilient and powerful solutions through the most demanding of market environments.

TAKING THE LEAP INTO A NEW FUTURE
As we consider the future of the FX market, it’s obvious we are at an inflection point. Where and how FX teams operate have been transformed. Much of these changes are here to stay.

Resilience theory suggests that those banks who actively adapt will emerge in a position of strength, evolved for this new normal. This adaption requires a fundamental re-examination of the bank’s value chain, honing in on strengths in an efficient and practical manner and partnering with peer banks and the right technology providers. Such a response will create a more resilient, dynamic, technology-enabled ecosystem, along with a healthier and more robust FX market.