And Finally...

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Today could actually turn out to be a reasonably significant day for the FX industry. Not that we will immediately notice it, because it will be a slow burn, but CME FX Link launched this morning in Asia.

The reason I feel it may be significant is down to my long-standing belief that greater automation and efficiency in FX forwards and swaps is the key to long term growth in the broader FX industry, and there is a chance that FX Link may help deliver the regulatory and capital efficiency to help drive that, in an automated environment.

The numbers speak for themselves (although I do feel a little strange quoting two year old data!), in the last BIS Survey, over $1.1 trillion per day was trading in FX markets with a maturity between one week and one year. It's not quite the $1.6 trillion per day spot market but as the man once said (almost), "a trillion here, a trillion there, soon you're talking real money".

Putting aside whether FX Link will help boost spot FX volumes – it probably will, but to a certain extent it will be a false image as we would be breaking down the legs of what is effectively a swap transaction – this product does represent the chance for the non-bank firms, without the balance sheet of the big banks, to get into the lucrative swaps market.

Whether that will be seen as a good thing for the market is neither here nor there, on one hand it could lead to tighter pricing for clients in the forwards and swaps, but on the other, there are always fears that when an evolution in the market enables tech-savvy firms to compete, we end up in a speed game. The fact is though, these markets have always been subject to arbitrage so are pretty tightly priced – any improvement in the spread will be attributed to the easier credit model.

There could be a wider boost as well, for if the major players are able to reduce their balance sheet usage in FX swaps on what are really run of the mill transactions, they may well be able to help provide a deeper market in off-the-run tenors, something that would really help clients. Corporates don't really struggle for liquidity when it comes to their hedging programmes, so again, this will be a minor benefit, but a benefit it will be.

Probably the most telling factor in this for me is how the new spread contracts will be traded in an electronic environment. This, added to the increased fungibility between exchange and OTC products, may help the OTC market accelerate its (thus far ineffective) efforts to build a serious electronic CLOB for FX swaps. If there is one area of the industry that could do with greater automation it is the swaps, and one or more e-CLOBs will raise price transparency levels and cut the odd dollar off costs.

Such a change will not mean, as I am repeatedly told, hundreds of job losses amongst the forwards teams, rather it will – as was case in spot – mean that some will need to use their skills in a different fashion. This is still a market that has individual needs requiring a degree of tailoring of services and products – what we are talking about making better is the underlying inter-dealer market.

From an even broader perspective, this launch also comes at an apposite time, given CME's public interest in NEX Group, whose EBS platform has started supporting FX swaps without, I am told anecdotally, pulling up any trees. Should such a deal go ahead, the customer base of NEX would be very fertile ground for the team pushing FX Link.

So this could be an auspicious day – but only in retrospect. With the greater efforts to clear FX swaps between major dealers advancing, and novation and credit intermediation services such as those to be offered by Capitolis coming to market, we have the prospect of comparatively radical change in what is the biggest (if you include the short dates under one week) individual product in the FX market.

As I noted at the top, this won't be a quick revolution, but I suspect we could be talking about an entirely different market structure for FX swaps this time next year.

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