

2014 Greenwich Leaders: Global Foreign Exchange Services

Q1 2014

Deutsche Bank, UBS, Citi and Barclays are tightening their grip on the foreign exchange market as global FX continues its transition to a primarily electronic marketplace.

These banks — the top four dealers in FX — together captured an impressive 46.7% of global top-tier customer trading volume in 2013, an aggregate share that has grown by six percentage points since 2012. (To be considered top tier, a firm must be a central bank, a government agency, a hedge fund, a fund manager, a FT100 global firm, a firm with reported trading volume of more than \$10 billion, or a firm with reported sales of more than \$5 billion.) The dominance of these banks is even greater in certain regional markets. In the top-tier United States, these four dealers claimed an aggregate market share of close to 53% in 2013, up from about 42% in 2012. This performance earned Deutsche Bank, UBS, Citi and Barclays, along with number-five ranked J.P. Morgan, the title of 2014 Greenwich Share Leaders in Global Top-Tier Foreign Exchange Services.

Drivers of Market Share: Quality and Electronic Capabilities

Many factors come into play in the selection of a dealer for an FX trade. For example, Citi and Deutsche Bank distinguished themselves from other dealers last year by providing the market's best service quality, according to ratings from the financial institutions and corporates participating in Greenwich Associates 2013 Global Foreign Exchange Services Study. These two firms are the 2014 Greenwich Quality Leaders in Global Top-Tier Foreign Exchange Services.

However, one of the main drivers of market consolidation is the increasing use of electronic trading by market participants. Global FX trading volume increased by approximately 14% last year, with strong growth recorded in continental Europe and Japan. Worldwide growth was driven largely by an increase in trading activity among financial institutions (+18%), which in turn was powered by a 41% increase in trading volumes generated by retail aggregators. As their overall trading activity levels increased, financial institutions as a whole increased the share of their trading volumes executed electronically by three percentage points to 77%, and retail aggregators upped the share of their own business done through electronic systems to 98% from 93%.

“Due largely to these shifts, nearly three-quarters of global FX trading volume (74%) was executed electronically last year, up from 71% in 2012,” says Greenwich Associates consultant Woody Canaday.

The biggest beneficiaries of this shift are banks with the best electronic trading platforms. “In general, it is the biggest banks that are able to afford the sizable investments needed to build, deploy and maintain these sophisticated platforms,” says Greenwich Associates consultant Peter D’Amario. “Looking at the direction of the market and the increasing influence of retail aggregators and high-frequency traders, it’s likely that this arms race will only intensify.” Notably, hedge funds are sizable users of single-dealer platforms and they are expecting to increase their use of these in the coming year.

Emerging Markets and Currency Options Contributing to eFX Growth

One trend contributing to the continued growth of electronic trading is the increase in trading volumes in emerging market currencies. In past years, the increased popularity of emerging market currencies produced only a marginal effect on eFX due to the fact that many of these currencies did not trade on electronic platforms and offered market participants only limited liquidity if they did. Over the past 12 months, however, the average share of emerging market currency cash trading volume executed electronically increased to 56% from 52%. “While this share remains small relative to the 79% of trading volume in G-10 cash currencies, both increased trading volumes in emerging market currencies overall and increased coverage of these currencies on electronic platforms point to bigger growth to come,” says Peter D’Amario.

Electronic FX volumes are also getting at least a minor boost from currency options, which are often traded through single-dealer platforms that allow for a maximum level of customization. The share of global FX market participants trading currency options electronically increased four percentage points to 28% in 2013 and the share of options currency trading volume executed through electronic systems increased three percentage points to 26%. However, recent research from Greenwich Associates Market Structure and Technology practice shows that regulatory burdens set to take effect in the coming years could severely slow the growth in FX options trading.

Greenwich Share Leaders

The list of 2014 Greenwich Share Leaders in Global Top-Tier Foreign Exchange Services consists of Deutsche Bank and UBS, which are tied atop the market with market shares between 12.0% and 12.5%, followed by Citi at 11.7%, Barclays at 10.5% and J.P. Morgan at 6.2%. Deutsche Bank and Citi lead the list of 2014

Greenwich Share Leaders among global top-tier corporates with equal market shares of approximately 9.0%, followed by HSBC, J.P. Morgan, Barclays and RBS. The 2013 Greenwich Share Leaders among global top-tier financials are UBS and Deutsche Bank at 13.1%–13.4%, Citi at 12.2%, Barclays at 11.2% and J.P. Morgan at 6.2%.

Greenwich Share Leaders — 2014



Global Top-Tier Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
Deutsche Bank	12.4%	1T
UBS	12.1%	1T
Citi	11.7%	3
Barclays	10.5%	4
J.P. Morgan	6.2%	5

Base: 1,584

Global Top-Tier Corporates Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
Deutsche Bank	9.0%	1T
Citi	8.9%	1T
HSBC	7.9%	3
J.P. Morgan	6.2%	4T
Barclays	6.2%	4T
RBS	6.0%	4T

Base: 667

Global Top-Tier Financials Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
UBS	13.4%	1T
Deutsche Bank	13.1%	1T
Citi	12.2%	3
Barclays	11.2%	4
J.P. Morgan	6.2%	5

Base: 885

Asian (ex-JANZ) Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
Deutsche Bank	13.4%	1
Citi	10.2%	2
Barclays	8.8%	3

Base: 634

Canadian Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
RBC Capital Markets	10.4%	1
TD Securities	7.5%	2T
Barclays	7.4%	2T
Citi	7.4%	2T
BMO Capital Markets	7.2%	2T

Base: 91

European Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
UBS	12.5%	1
Deutsche Bank	10.9%	2
Citi	10.2%	3T
Barclays	10.0%	3T

Base: 573

Japanese Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
Deutsche Bank	16.5%	1
Citi	14.0%	2
UBS	12.9%	3

Base: 260

Latin American Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
Citi	19.7%	1
J.P. Morgan	9.5%	2
Deutsche Bank	8.5%	3T
HSBC	7.8%	3T

Base: 148

United States Foreign Exchange Market Share

Dealer	Market Share	Statistical Rank
UBS	14.3%	1
Citi	13.4%	2
Deutsche Bank	12.6%	3T
Barclays	12.5%	3T

Base: 499

Note: Based on a total of 2,657 global respondents, of which 1,584 are top-tier accounts. Leaders are based on top 5 dealers including ties on a global basis and on top 3 dealers including ties on a regional basis. Source: 2013 Global Foreign Exchange Services Study

At the regional level, Deutsche Bank, Citi and Barclays are the 2014 Greenwich Share Leaders in Asian Foreign Exchange Trading Services. In top-tier Europe, the list is topped by UBS with a market share of 12.5%, followed by Deutsche Bank, Citi and Barclays. Deutsche Bank, Citi and UBS claim the title of 2013 Greenwich Share Leaders in Japan, with Deutsche Bank on top with a commanding margin at a market share of 16.5%. The 2014 Greenwich Share Leaders in U.S. Foreign Exchange Services are UBS at 13.4%, followed by Citi, Deutsche Bank and Barclays. In Canada, RBC Capital Markets leads a list of Greenwich Share leaders that also includes TD Securities, Barclays, Citi and BMO Capital Markets.

Greenwich Quality Leaders

The 2014 Greenwich Quality Leaders in Global Foreign Exchange Services, Citi and Deutsche Bank, won that title by receiving quality ratings from clients that exceed

those of competitors in multiple markets and market segments around the world. Citi is the 2014 Quality Leader among global top-tier corporates; Deutsche Bank takes the honor among global top-tier financials. Both firms appear on the list of 2014 Quality Leaders in Asia, along with Bank of America Merrill Lynch — a dealer that has achieved notable gains in quality ratings around the world — and UBS. Citi joins Bank of America Merrill Lynch as 2014 Quality Leaders in the United States, and Deutsche Bank joins Barclays in Japan. The 2014 Greenwich Quality Leaders in European Top-Tier Foreign Exchange Services are Barclays, Citi, Deutsche Bank and UBS.

Greenwich Associates consultants Andrew Awad, James Borger, Woody Canaday, Peter D'Amario, Frank Feenstra, Brian Jones, Peter Kane, Tim Sangston, Abhi Shroff, Taeko Sumiyoshi, and Tomio Sumiyoshi specialize in foreign exchange and derivatives globally.

Greenwich Quality Leaders — 2014



Global Top-Tier Foreign Exchange Service Quality

Dealer

Citi
Deutsche Bank

Base: 1,584

Global Top-Tier Corporates Foreign Exchange Service Quality

Dealer

Citi

Base: 667

Global Top-Tier Financials Foreign Exchange Service Quality

Dealer

Deutsche Bank

Base: 885

Asian (ex-JANZ) Foreign Exchange Service Quality

Dealer

Bank of America Merrill Lynch
Citi
Deutsche Bank
HSBC

Base: 634

Canadian Foreign Exchange Service Quality

CIBC
National Bank Financial
RBC Capital Markets

Base: 91

European Foreign Exchange Service Quality

Dealer

Barclays
Citi
Deutsche Bank
UBS

Base: 573

Japanese Foreign Exchange Service Quality

Dealer

Barclays
Deutsche Bank

Base: 260

Latin American Foreign Exchange Service Quality

Dealer

Citi

Base: 148

United States Foreign Exchange Service Quality

Dealer

Bank of America Merrill Lynch
Citi

Base: 499

Note: Based on a total of 2,657 global respondents, of which 1,584 are top-tier accounts. Leading dealers are displayed in alphabetical order.
Source: 2013 Global Foreign Exchange Services Study

Methodology

Greenwich Associates conducted interviews with 2,657 users of foreign exchange globally, of which 1,584 are top-tier accounts, at large corporations and financial institutions on market trends and their relationships with their dealers. To be considered top tier, a firm must be either a central bank, a government agency, a hedge fund, a fund manager, a FT100 global firm, a firm with reported trading volume of more than \$10 billion, or a firm with reported sales of more than \$5 billion. Interviews were conducted in North America, Latin America, Europe, Asia, and Japan between September and November 2013.

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