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The Elephants in the Dealing Room: A Study of Corporate Clients in FX

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Executive Summary:



One of the pleasures of writing about foreign exchange market structure is that it routinely defies convention. In some cases, it defies definition altogether. Its global nature, fractured regulatory regime and the interests of many of its participants obscure FX market structure making it difficult to comprehend.

Take something as trivial as market size: The absence of any reporting requirements means that the industry only gets a reliable average daily volume estimate once every three years from the BIS—and even this is disputed from the moment it is published. What is true of the whole is also true of the parts. In FX, there are whole segments of the customer base who avoid systematic scrutiny simply because the data is hard to come by.

Corporates are one such segment. Corporations are arguably the most important customer segment in FX, and we have noted in other research the lengths to which banks and platforms will go to retain them. After all, they are the ultimate end user, and for them, FX is largely a cost.

This Greenwich Report examines how corporations think about FX and how this influences their trading behavior relative to financial investors, who are more often in the market structure spotlight.

Methodology:

Throughout June and July 2019, Greenwich Associates interviewed 97 FX investors as a part of our annual Market Structure and Trading Technology Study. Respondents were asked how they select an FX trading platform, how they determine quality execution, as well as the influences for selecting an FX algo. In addition, Greenwich Associates conducted electronic interviews in the second half of 2019 with 76 corporate treasury executives from large, industry-leading multinationals based in the United States to explore the evolving role of the corporate treasurer. Topics included how corporate treasurers' objectives are defined, what methods and tools they use to achieve those objectives, and where there may be shortcomings in the tool set. In addition, we conducted several qualitative interviews via in-depth conversations in order to dive more deeply into how specific corporate treasury staff manage their risks.

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