

INTERDEALER BROKERS

IDBs bet on RMB boom

RMB internationalization a big opportunity

Commodities counterbalance bank retreat

Rob Hartley

Interdealer brokers are set to be big beneficiaries of the rapid growth and development of the renminbi, say market players.

The internationalization of the Chinese currency has created opportunities for new business across the financial services industry, and IDBs are looking to ride the wave of RMB progression.

"The most exciting watershed moment for us in the Asia-Pacific region would be full internationalization of the RMB, where you would have sudden access to a market on our doorstep that previously was not admissible," says Hugh Gallagher, chief executive of Asia Pacific at Icap. "In Asia we've got a successful business in its own right, but the future accessibility of the RMB has the potential to make growth in our business exponential. There's no doubt about that."

The renminbi already provides a lot of business for IDBs, but its rise in importance and credibility in international markets offers the potential for even greater rewards.

Expectations

"RMB has shown exponential growth in recent years, and trading in it, and with Chinese banks, already forms a significant part of our Asian revenues," says Barry Dennahy, Asia Pacific chief executive at Tullett Prebon. "As Asian centres other than Hong Kong expand their RMB trading, we expect volumes in the currency to continue to grow."

David Clark, chairman of the Wholesale Markets Brokers' Association, says IDBs can look forward to a big role when the RMB becomes fully convertible.

"The internationalization of the RMB continues as the increase in trading activity of CNY and CNH has demonstrated," says Clark. "Volumes in the OTC markets in both cash and derivative form have long been traded between banks using IDBs who provide the traditional liquidity. Until capital control reform takes place, IDBs are well positioned to be the principal liquidity providers in the market."

Banks have traditionally been important clients of IDBs and continue to be so, but



"The future accessibility of the RMB has the potential to make growth in our business exponential"

Hugh Gallagher, Icap

restraints on market activity that have become ever more onerous since the financial crisis mean IDBs have had to widen their client bases and explore new asset classes.

"The large banks will always be a core part of our customer base," says Gallagher at Icap. "But having said that, there are areas of business across the asset classes where we have access to a wider trading community. But as the model shifts and banks are able to hold less inventory, they have restraints on them around their model. I think the opportunities for Icap to work with that wider trading community will definitely play out over time."

Commodities

Dennahy at Tullett Prebon says: "We continue to derive a significant proportion of our Asian revenue from the banking sector, but as new markets begin to evolve such as energy and commodities, we may see that begin to change."

Commodities are fast becoming one of the most exciting markets for IDBs in Asia, and could provide an opportunity to counterbalance the pullback from banks in some more traditional areas.

"The commodity boom has left a legacy of increased trading activity that is still apparent despite the slowdown in Asian economic growth and the drop off in commodity prices," says the WMBA's Clark.

Clark continues: "Asia is still a major buyer and seller of commodities, and price performance reflects more than short-term economic behaviour. Energy markets should be included in commodity thinking as there are very dynamic supply, demand and price movements resulting from the collapse in the price of crude oil and the switch from nuclear power to LNG-generated energy in Japan after Fukushima."

But while energy is clearly an important market, the dry bulk sector could prove more lucrative for IDBs.

Dry bulk

"The big mover in Asia Pacific around dry bulk has been the iron ore story," says Gallagher. "The market took a little while to get going, but is becoming more fully fledged, and the trading community is wide and growing. Whether it be steel mills in China, large trading houses offshore, or some of the large banks and hedge funds, all these players are in this space, so commodities are one asset class where we have a far wider array of clients. The next opportunity we see around dry bulk is in coal. As and when these markets present themselves, I think we have the right offering to really expand the footprint."

Alongside RMB, the potential involved in commodities for IDBs is an exciting prospect for the industry, and could see an expansion in dedicated personnel at the firms operating in Asia.

"Commodities are of growing importance for us, and we are actively exploring opportunities to build out our business in Asia," says Dennahy. "We are adding to our energy and commodities desks in Singapore and we are expanding our range of products to include liquefied petroleum gas, LNG, gasoline and iron ore."