Content Index

Contributing Authors

A ten plus years trading veteran, Ron started his career at a Wall Street equitytrading firm. He moved into the Forex industry in 2009, wherehe worked as a securities dealer and provided trading webinars as well as writing daily trading analyses for various brokers. Ron is one of Finance Magnates' founding hires and and is involved with overall company and content strategy.

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A graduate of the Warsaw School of Economics, Sylwester received an MA with a specialty in finance and banking. As Finance Magnates' research associate and STA certified analyst, he leaves no stone unturned. Sylwester is the previous minority partner of an NFA registered U.S. forex broker,and since 2003, has participated in many forex projects.

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Avi, is a trained economist with a BA and MBA from TAU, specializing in finance and entrepreneurship. His interest in the business culture in greater China led to his studying for an IMBA at the National Chengchi University of Taipei. He previously worked at a stock options trading desk for a bank in Israel and later as an associate for FXCM. Avi is Finance Magnates' Managing Editor.

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Bringing a unique fusion between an experienced retail customer and forward-looking foreign exchange devotee, Victor Golovtchenko has passionately dedicated his career to the financial markets and landed in the company of the Forex Magnates team in March 2014. He now edits Finance Magnates' Retail FX section.

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A new contributor, Vadim has an MBA degree in economics, and started his career as a banking investment consultant. In 2009 he began covering equity markets and macroeconomics for Israeli daily "The Marker". As Finance Magnates' Russian Editor, Vadim is eager to provide our readership with the best news and analysis source by providing a broad global outlook.

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Leon's experience spans both finance and technology. His perspectives on disruptive technologies, emerg-ing money transfer schemes and the evolution of our financial system draw upon learnings from both the traditional and innovative worlds. Experienced with the valuation of enterprise opportunities, hard data and numbers are his gold and silver when sifting for rationale beyond the headlines.

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Jeffery joined the Forex Magnates team in late 2013 as an editor, where armed with unique insight and drive, he helped develop the "Meet the Experts" portal, which was amalgamated into the "Executives" platform on Finance Magnates. Jeffery began covering the forex industry back in 2011 as a research analyst and editor at FXStreet. He holds degrees in economics, political science, and geology.

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Section

01

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INSTITUTIONAL OVERVIEW

While Q1 in the institutional foreign exchange market was dominated by the fallout from volatility on the Swiss franc, this quarter's reverberations was triggered by regulation. Namely, the much anticipated Bank of England Fair and Effective Markets Review (FEMR) analyzed the effects of execution in the FX market. As opposed to the connected world of equities trading which incorporate best practice execution, the fractured FX market contains many direct relationships between banks and clients.

FEMR and 'Last Look'

Perhaps the most important outcome from the BoE's analysis was its opinion on last look procedures by banks. As a quote driven market, banks provide pricing to their clients. In a last look model, once clients select to execute a trade at a given bid or ask price, banks are provided the opportunity to accept or reject their client's requested order. For bank customers, last look puts them in jeopardy of trades being rejected. Specifically in fast moving markets, this can cause bank clients to be unable to enter or exit positions due to trade rejections. While seemingly at odds with client interests, there are several rationales for last look prices. The main driver of the model is the fractured nature of the FX market, which is dominated by client to bank relationships. Unlike exchanges or ECNs which use multi-lateral structures of connecting all market participants with the same pricing structure, with direct relationships, banks price their customers differently. The ultimate pricing could be dependent on their trading habits or other business the customer has with the bank. This may lead to situations where an FX desk provides attractive rates that aren't profitable to the bank in order to maintain a greater relationship with a large client for other services. In addition, as banks are pricing to multiple venues, they are at risk of having orders simultaneously at different locations. Therefore, although the aggregate market depth of their quotes can be $1 billion, in reality, they are only interested in filling up to $200 million in trades at any one moment. In these situations, last look polices allow banks to price 'everywhere', but not be filled 'everywhere'.

Is this the end of last look in FX?

With FEMR report, the Bank of England (BoE) recommended the enactment of global standards for both last look prices and time stamps. The BoE wasn't yet ready to issue an opinion that it wanted to remove the use of last look, as they were positive towards the overall technology flow of the FX industry in how connects such a fractured market. But, their bottom line is that transparency will improve if global standards for accounting for trade executions are handled.

Several weeks before the BoE's FEMR report was public, Thomson Reuters and HotspotFX, both announced that they were removing last look features from their FX dealing platforms. In addition, due to negative backlash from the FX fixing scandal, more primary bank dealers have decreased the use of last look with their relationship based customers.

Surveillance, technology & spreads

While last look use decreases, one of the worries is that it will lead to higher spreads and commissions being charged to customers. Due to banks no longer being able to reject trades as often, it raises their risk vulnerability.

Under normal conditions, higher risks increase prices associated with

Fig 0. Publically Reporting Venues. Monthly and Average Daily Volumes (in $bn, unless otherwise noted)

	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15
EBS	1,623.8	1,795.5	2,593.8	2,987.7	2,460	2,305.6	2,721.6	1,882	2,519	2,131.8	2,013.9	2,217.6
	70.6	85.5	117.9	129.9	123.0	104.8	129.6	94.1	114.5	96.9	95.9	100.8
Hotspot	551.6	606.9	841.4	789.6	655.7	610.3	719.4	525.8	695	625.4	561.9	565.7
	24	28.9	38.2	34.3	32.8	27.7	34.3	26.3	31.6	28.4	26.8	25.7
Reuters**	2,277	2,247	3,168	3,105	2,400	2,332	2,835	2,280	2,904	2,596	2,310	2,376
	99.0	107.0	144.0	135.0	120.0	106.0	135.0	114.0	132.0	118.0	110.0	108.0
FXCM	262	257	362	393	342	321	255	162	248	220	206	230
	11.4	12.2	16.5	17.1	17.1	15.3	12.1	8.1	11.3	10	9.8	10.5
CLS Bank****	17,066	16,359	22,374	22,793	18,020	18,040	19,110	16,100	19,624	16,940	15,834	16,830
	742.0	779.0	1017.0	991.0	901.0	820.0	910.0	805.0	892.0	770.0	754.0	765.0
CME*	13,409	14,049	25,300	22,678	18,580	21,054	20,916	15,100	23,914	18,436	18,480	21,714
	583.0	669	1150.0	986	929	957.0	996.0	755	1087	838	880	987
TFX (Click 365)*	1,710.9	1,965.2	3,259.3	4,048.9	4,146	4,000	3,616	2,694	2,983	2,789.5	2,764.3	3,822.3
	74.4	93.7	148.1	176.0	207.3	173.8	172.2	134.7	135.6	126.8	135.7	173.7
GAIN	362.8	321.8	404.4	397.8	366.7	379.4	411.9	329.9	527.9	436.3	390.6	454.9
	15.8	15.3	18.4	17.3	18.3	17.2	19.6	16.4	24	19.8	17.2	20.7

*CME & TFX Data in thousands of contracts
**** CLS Bank figures are OTC Spot volumes according to BIS accounting
** Figures for FXSpot trading across all of Reuters/Fxall platforms

Source: Finance Magnates

trades; either in the form of commissions, margin rates or spreads rising. As part of the changing environment, costs of sourcing technology to aggregate liquidity from numerous banks have decreased over the past several years.

In addition, a growing list of technology providers offer transaction cost analysis (TCA) services to analyze trades. The result, is that much of the buy-side is already aware of rejection rates, expected prices and how banks prices different currencies. This increased level of transparency has allowed them to demand better service and pricing, even without regulatory last look reform. For banks though, this technology evolvement isn't cheap.

As a result of costs involved with big data market analytics to control FX pricing and monitor risk, it has driven out weaker players from being market makers, to simply resellers of liquidity from larger banks. Due to this trend, firms that continue to be pricing into the market are ones that are comfortable with their technology and risks, and less likely to require raising costs.

COMMODITIES OVERVIEW - H1

On going geopolitical tensions in Russia and the Middle East continued to plague the markets, forcing the global commodity markets to ride shotgun. With a strong U.S. economy and the talk of possible interest rate hikes, international investors are still struggling with January's CHF tremors and are bullish on traditional equity and credit investment assets, with raw material-related products off the radar.

Year to-date, all major commodity instruments have been on a declining trend with the price of tin dropping the most, creeping over 25% in 2015, followed by sugar which has dropped 20% on the back of lower crops and a weak Brazilian real. Only cocoa has maintained any dignity, trading in the green zone with a 7% uptake.

During the last quarter, the overall trend of low commodity prices was present. Key energy contracts WTI and Brent have continued to hover around the $56-$62 a barrel mark.

The world's largest derivatives trading exchange, the CME, reported that it was enhancing its Zinc product range. In April the venue stated that it was launching a physically delivered Zinc futures contract price in U.S. dollars, and will represent 25 metric tons of physical material.

Euronext, the leading European trading exchange, has been lagging behind its peers with low volumes, but with a new trading approach the venue aims to bolster its wheat futures contract through a new instrument for trading spreads between its main wheat contract and the new Premium Milling Wheat No.3 version. Euronext added the contract in March to its lineup of commodity products, but traders and hedgers proved reticent after a rain-struck harvest. Traders will now be able to trade between the two instruments as Euronext introduces an Inter-Commodity Spread (ICS) facility, spanning the two wheat contracts. The new ICS spread allows traders to trade between any wheat No. 2 contract maturities or any of the wheat No. 3 maturities in a dedicated order book.

The uncertainty in the precious metals has impacted the largest listed gold fund. The SPDR Gold ETF witnessed a sharp increase in outflows, thus reducing the total AUM (Assets Under Management) of the fund by 3% and positioning it out of the top ten most liquid ETFs. In May, over $900 million was taken out of the fund. The latest figures are important for Gold traders, as outflows from ETFs led to a 28% fall in gold prices in 2013 during the biggest shake-up seen in 3 years, signifying the equivalent of selling a combined 881 tons of gold.

Industry data shows that ETFs accounted for close to 9.2% of all the gold investment demand in the first quarter of 2015.

On the other hand, the yellow metal made strong gains in terms of Japan's trading activity in June. The country's main commodity trading venue, TOCOM, saw its open interest in the rolling gold futures contract cross 50,000 contracts, as more retail investors entered the market.

Although gold has been losing its shine in dollar terms, the instrument has been performing well in Japanese Yen. The contract price in JPY has seen an uptake of over 13% over a 12-month period with long term annualized return of 5.44%

Fig 0.

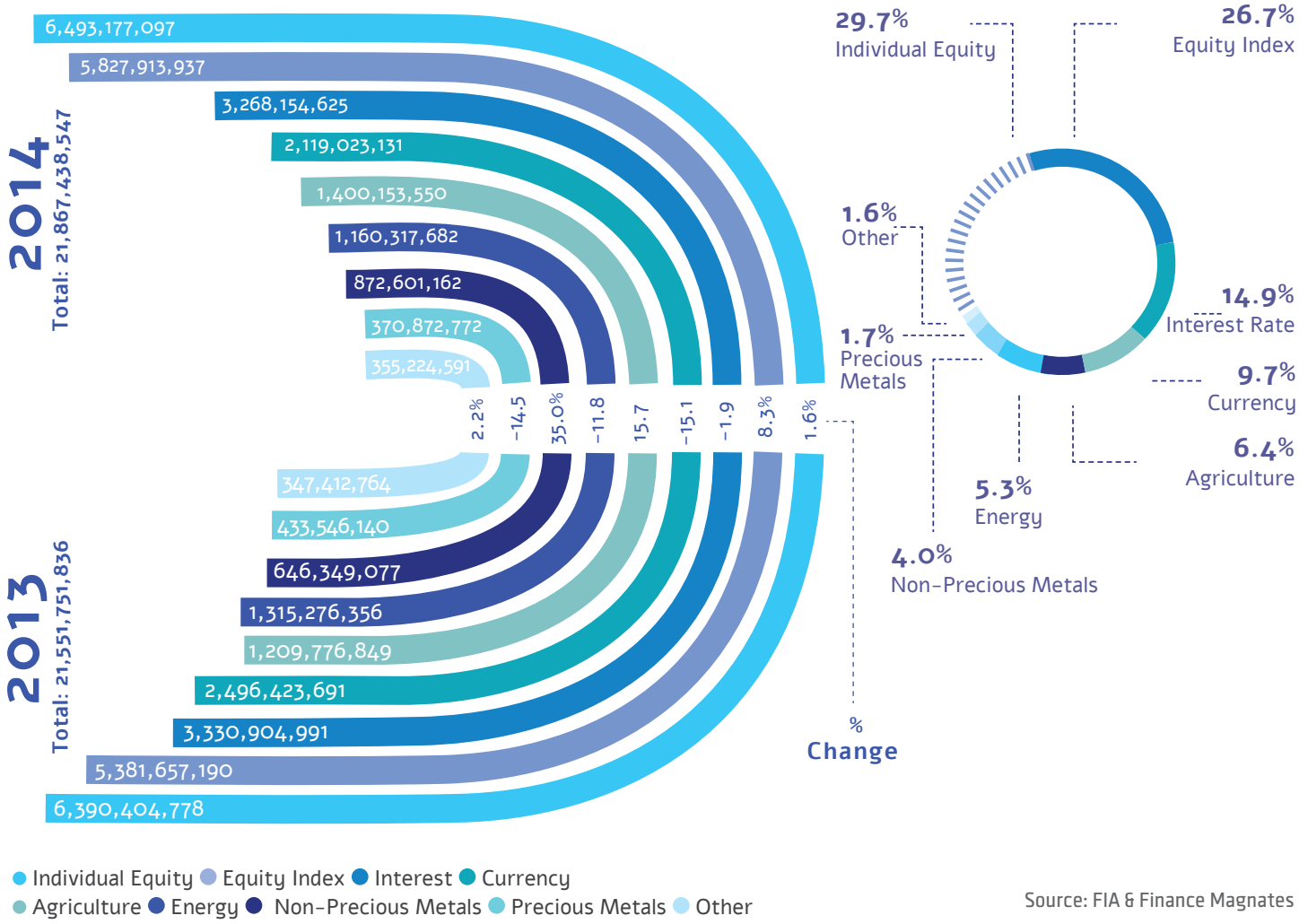
Exchange Rank - by Number of Contracts Traded and/or Cleared 2013-2014

Exchange	2013	2014	Annual % Change
1. CME Group	3,161,476,638	3,442,766,942	8.9%
2. Intercontinental Exchange	2,558,489,589	2,276,171,019	-11.0%
3. Eurex	2,190,727,275	2,097,974,756	-4.2%
4. National Stock Exchange of India	2,127,151,585	1,880,362,513	-11.6%
5. BM&FBovespa	1,603,706,918	1,417,925,815	-11.6%
6. Moscow Exchange	1,134,477,258	1,413,222,196	24.6%
7. CBOE Holdings	1,187,642,669	1,325,391,523	11.6%
8. Nasdaq OMX	1,142,955,206	1,127,130,071	-1.4%
9. Shanghai Futures Exchange	642,473,980	842,294,223	31.1%
10. Dalian Commodity Exchange	700,500,777	769,637,041	9.90%

Source: FIA & Finance Magnates

Fig 0.

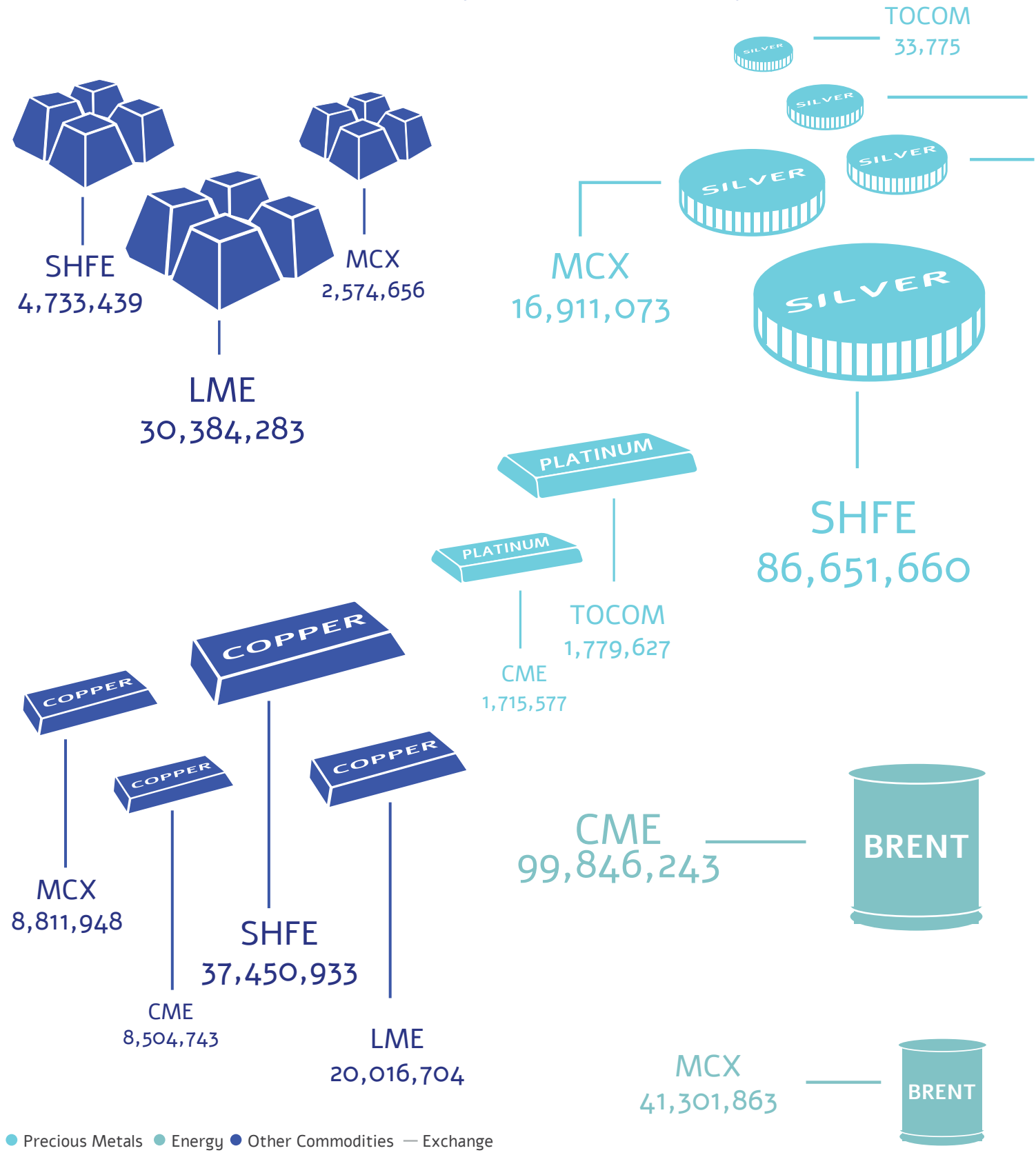
Global Futures and Options Volumes by Category 2013-2014

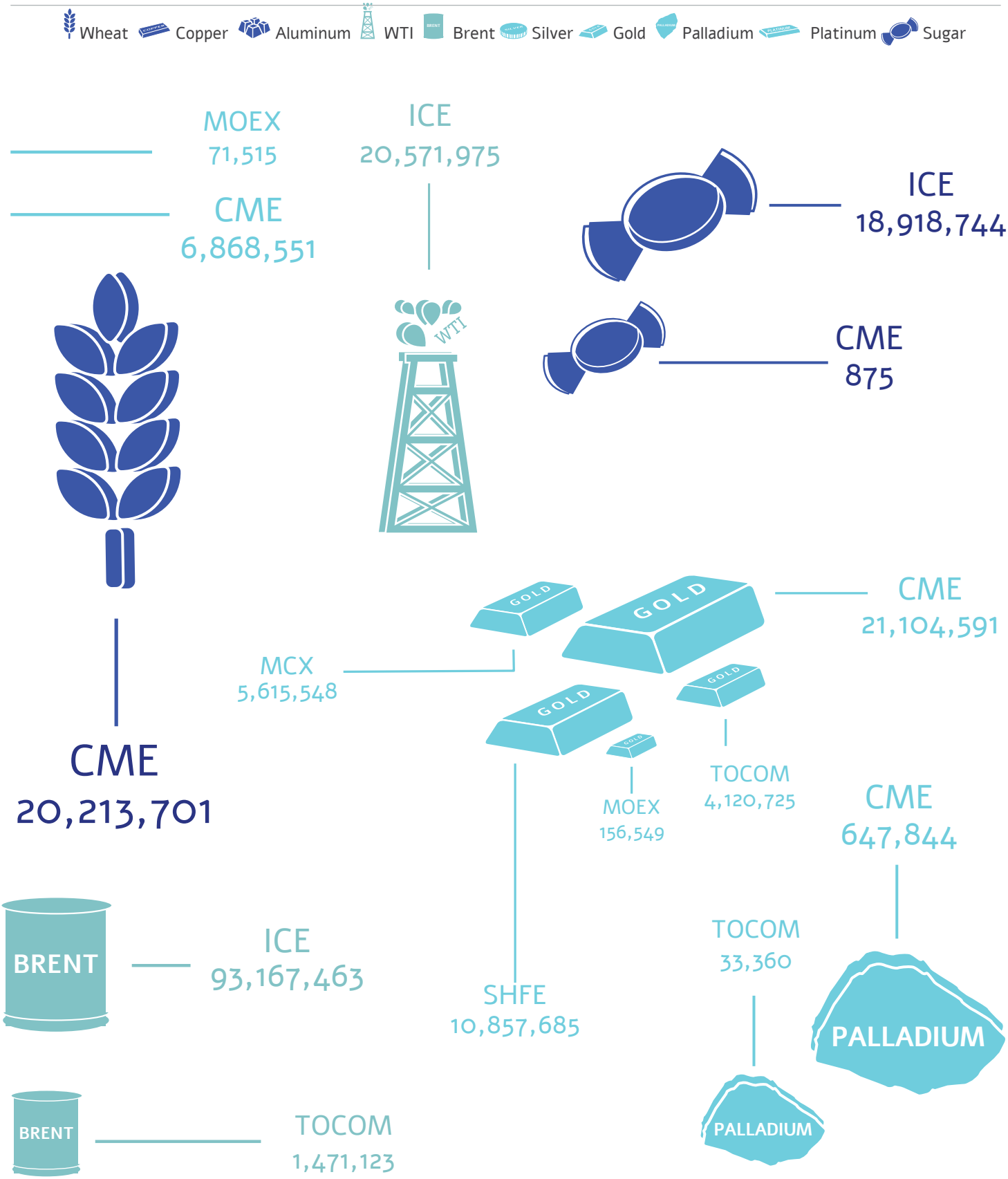


Source: FIA & Finance Magnates

Fig 0.

Number of Contracts Traded on Top Exchanges - Per Commodity – H1, 2015

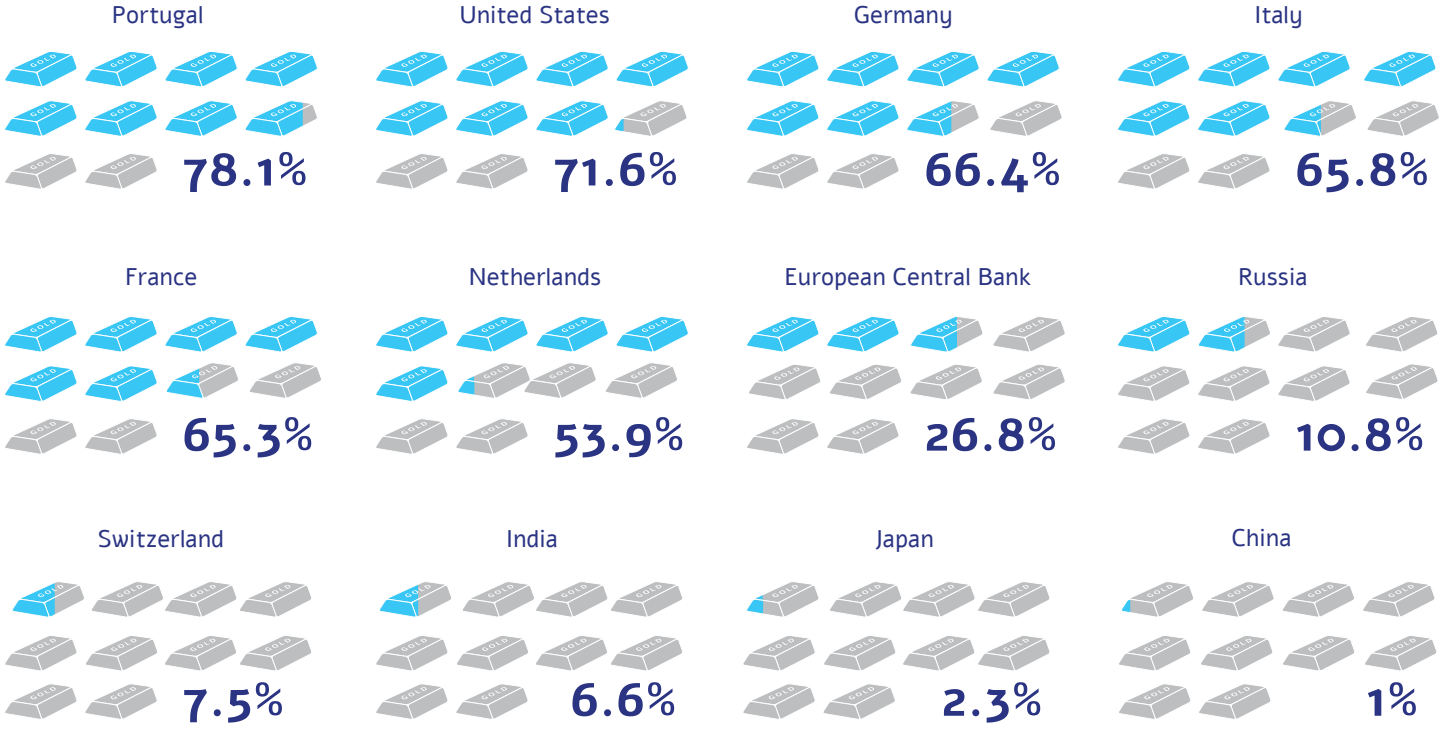




Source: Finance Magnates

Fig 0.

Percentage of Gold Reserves, Selected Central Bank Holdings 2015



Source: World Gold Council , Statista 2015

Fig 0.

Nominal Price Indices, Actual and Forecasts

	ACTUAL		FORECAST		CHANGE (%)	
	2013	2014	2015	2016	2014/15	2015/16
Energy	**127**	**118**	**69**	**74**	**-41.7**	**6.9**
Non-Energy	**102**	**97**	**87**	**88**	**-10.2**	**1.2**
Metals	**91**	**85**	**73**	**75**	**-13.4**	**2.1**
Agriculture	**106**	**103**	**93**	**94**	**-9.3**	**0.9**
Food	116	107	97	98	-9.7	0.8
Grains	128	104	96	97	-7.3	1.0
Oils and meals	116	109	92	94	-15.3	1.5
Other food	104	108	103	103	-4.5	-0.2
Beverages	83	102	93	92	-8.6	-1.1
Raw Materials	95	92	84	86	-8.4	2.4
Fertilizers	**114**	**100**	**97**	**96**	**-3.5**	**-0.6**
Precious Metals	**115**	**101**	**98**	**97**	**-3.4**	**-0.7**
Memorandum Items						
Crude oil ($/bbl)	104	96	53	57	-44.7	7.5
Gold ($/toz)	1,411	1,266	1,240	1,225	-2.0	-1.2

Source: World Bank

EXCHANGES

With the volatility of the SNB firmly in the rearview mirror, markets seemed to have settled back into a more tranquil state, specifically in terms of trading volumes across foreign exchange, derivatives and equities. With looming headwinds such as the Greek situation as it pertains to the eurozone, markets will likely avoid taking the summer off.

USA

CME Group, the world's largest derivatives trading exchange notched an uneven performance. FX trading volumes corrected back to lower levels, which alone corresponded to a -39.3% drop between March and April. The situation in Greece, the US nonfarm payrolls and the specter of a Federal Reserve rate cut fueled FX volumes.

The Intercontinental Exchange (ICE) was able to secure steadfast volume growth during Q2. Between March and May, ADV contracts soared 194.7% after a peak of 59,000 contracts in April. ICE Futures reported a record daily volume in its US Dollar Index (USDX) on March 12, which led to an all time high of 192,589 contracts.

Nasdaq experienced static growth in Q2 across its Fixed Income, Currencies, and Commodities (FICC) business. Despite reporting a figure of $2,762 billion in value traded in March 2015, a lackluster April, commensurate with the entire industry, set the stage for a marginal growth in May. Nasdaq's equity options fared little better, experiencing a monthly decline since March, with its lowest figure in May, with only 67 million contracts traded.

Europe

Euronext, Europe's largest exchange, experienced the same sort of volume consolidation as its US counterparts in Q2, namely in the field of equity derivatives. The overall trend was downward, starting out with a bottoming out of equity derivatives at 237,256 contracts (ADV) in March. The exchange also entered into other initiatives and Memorandums of Understanding (MOUs), mostly with Chinese entities. Derivatives trading went dark in March, after an issue on the Common Customer Gateway shut down operations for over an hour.

Eurex, the German derivatives exchange, reported a generally positive Q2 – this was reflective in the aggregate 16.1% growth of in average daily volumes across derivatives trading. which bottomed out at Eurex at 8.3 million contracts per day in April, rebounding higher to 10.1 million by May. German exchange Deutsche Bõrse AG, suffered an unrelenting decline in its monthly turnover for its cash markets, including its Xetra, Bõrse Frankfurt and Tradegate exchanges. March proved to be the most successful month, with $175 billion in turnover, subsequently waning to $153 billion and $137 billion during April and May respectively.

Asia

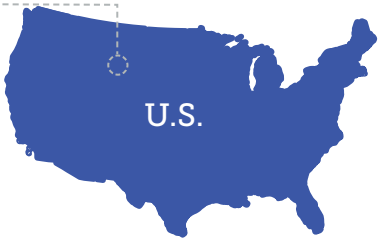
While Chinese stock markets rocketed, other exchanges, namely the Hong Kong Stock Exchange (HKEx), saw some key volumes dive. Chinese Renminbi (RMB) Futures capitulated MoM between March and May, bottoming out at just 542 average daily contracts in May.

The Singapore Exchange (SGX) charted an uneven course, although any weakness in its securities turnover was allayed by a solid performance in derivatives trading. May saw a figure of $15.4 million contracts, with a standout performance from its FTSE China A50 futures, , which noted a record average daily volume of 450,899 contracts in May.

Fig 0.

Derivatives Exchange Currency Futures Volumes - March to May 2015

CME Group FX Volumes	ADV $ billion
March	112
April	68
May	93



Moscow Exchange RUB & FX Derivatives	ADV $ billion
March	17.4
April	22.1
May	23.3

Hong Kong HKEx RMB Futures	ADV (Contracts)
March	994
April	787
May	542

Dubai DGCX Volumes	ADV (Contracts)
March	25,033
April	27,989

Euronext Equity Index Derivatives	ADV (Contracts)
March	237,256
April	225,995
May	231,576

Sources: MOEX, HKEx, DGCX, Euronext, CME Group

EVOLVING WITH THE MARKET: MULTI-ASSET TRADING FOR RETAIL BROKERS

As the habits of retail traders change and information becomes more accessible, an increasing number of brokers are optimizing their product range to attract and retain clients.

Armed with invaluable insight, top industry experts talk to Finance Magnates about this growing trend, and how trading technology is being adapted to stand the test of time.

Sylwester Majewski & Victor Golovtchenko

WANT TO READ MORE?

Get the Q2 2015 Report with Full Trading Volumes of Retail Forex Brokers

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