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Monthly Newsletter

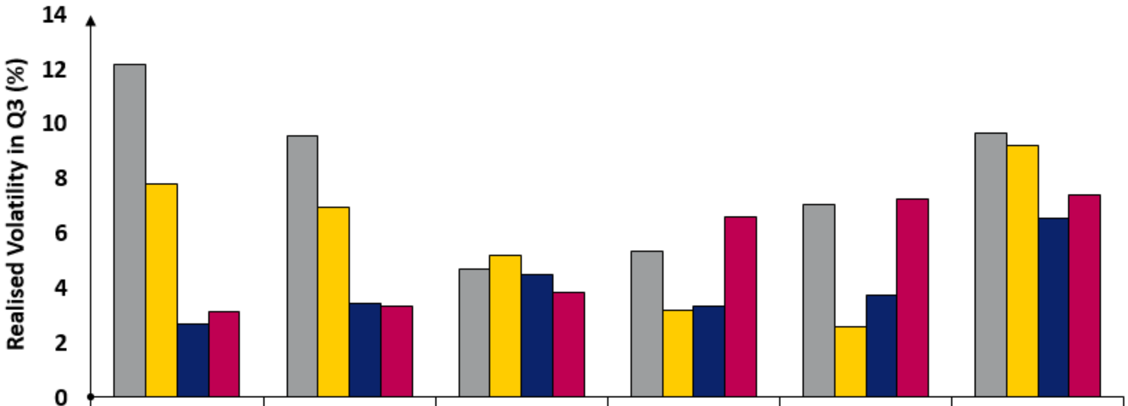
25 October 2018

SGX FX Futures volume tops US$265 billion in 3Q 2018 as EM currencies hit rough patch

- *Strong quarter for SGX FX Futures lifts January-September cumulative notional volume to US$650 billion, up 119% y-o-y*
- *SGX USD/CNH Futures volume at US$47 billion in September; YTD volume at US$366 billion*
- *SGX INR/USD Futures trading at 1.14 million contracts in September; YTD volume at US$280 billion*

For EM currencies in Asia, the quarter that ended September 2018 was a mixed bag. While turmoil in Turkey and Argentina had fanned FX volatility in EM, the impact was not homogenous across the spectrum. Malaysia, Taiwan and the Philippines emerged largely unscathed, but China and India were not spared. The renminbi and rupee were among currencies for which realised volatilities in 3Q were above levels observed during the same quarter in recent years.

Chart 1: 3Q Volatility for EMFX Asia – mixed bag in 2018



	USDMYR	USDTWD	USDPHP	USDINR	USDCNH	USDKRW
2015	12.2	9.6	4.7	5.3	7.1	9.7
2016	7.8	7.0	5.2	3.2	2.6	9.2
2017	2.7	3.4	4.5	3.3	3.7	6.5
2018	3.1	3.4	3.8	6.6	7.3	7.4

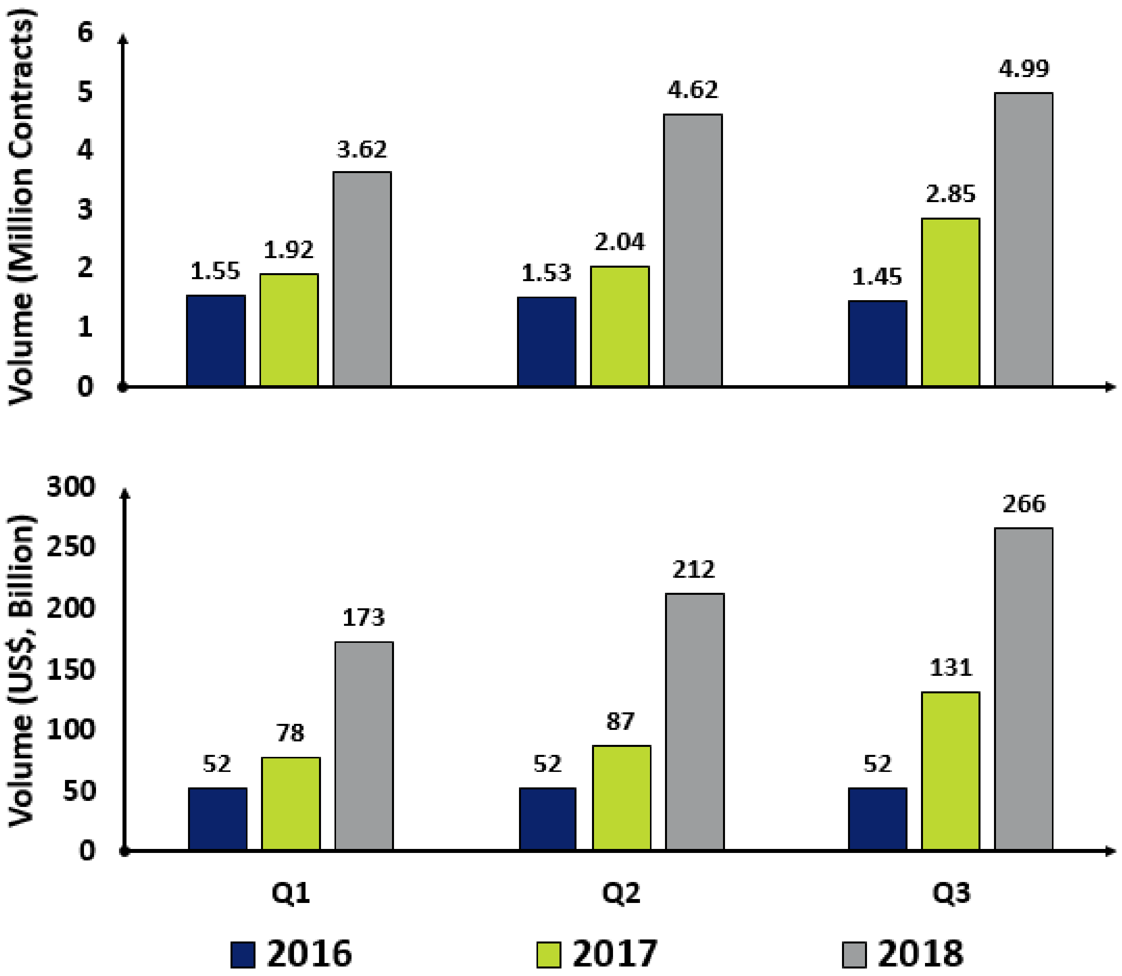
Data source: Bloomberg

Around the world, the threat of deglobalisation has increased as populism gained ground. This is a theme that played out during recent elections in Latin America – and one that may remain centre stage in coming months, with parts of Asia going to the polls. As a result, countries such as India and Indonesia have come under pressure to stabilise their currencies.

The economic impact of trade issues is manifesting itself across asset classes and currencies remain a sore spot. Access to cheap money – a legacy of quantitative easing during the post-crisis era – has tightened with the U.S. Federal Reserve reversing direction. These structural issues have further reduced the efficacy of traditional tools available to policymakers in managing money flows, adding pressure to regulators and at the same time contributing to an increase in active hedging of inherent FX risks.

International investors have continued to express their views on FX through SGX derivatives, lifting volume growth in 3Q to more than **US$265 billion**. Trading volume for **SGX FX Futures in September was above US$79 billion (1.64 million contracts),** rising **34%** from US$59 billion (1.29 million contracts) year-on-year. **Year-to-date cumulative notional volume (US$650 billion) surged 119%** over the same period in 2017. Market participants have traded **13.2 million SGX FX futures contracts in the first nine months** of 2018, **up 32%** from the full-year total of 2017.

Chart 2: Strong growth for SGX FX Futures in 2018



Data source: SGX

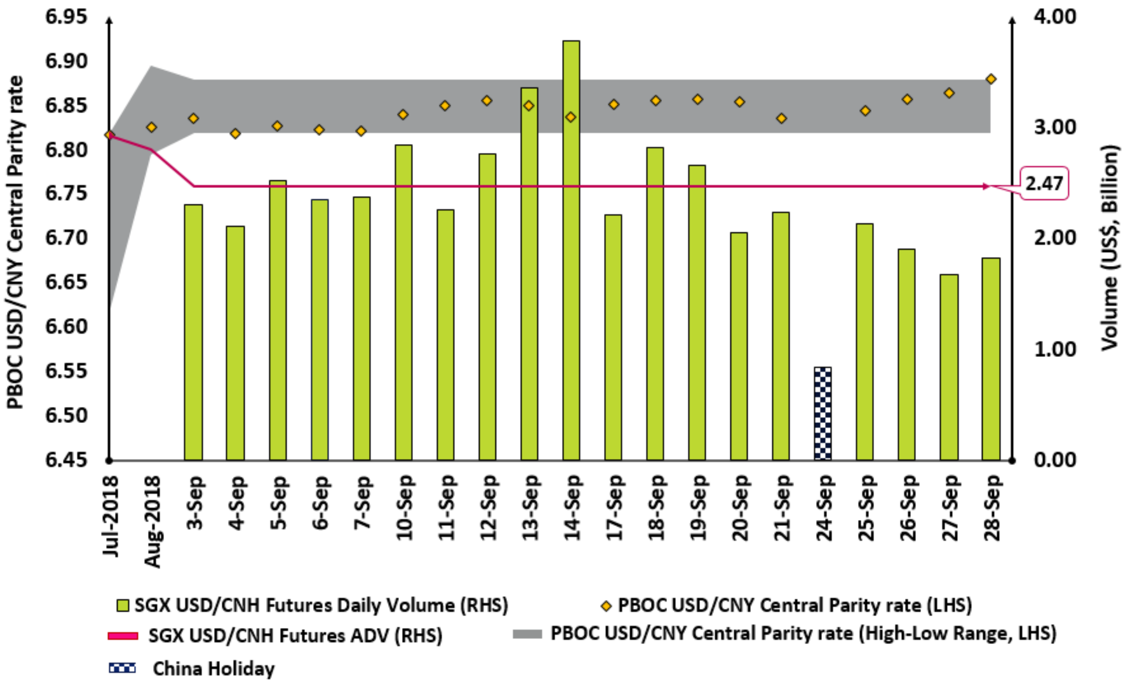
Renminbi trades in narrow range in September; SGX USD/CNH Futures volume at US$173 billion in 3Q

The paths charted by the world's two largest economies could not be more different. While the U.S. has embarked on protectionist policies such as abandoning multilateral trade alliances and introducing tariffs, China has started to gradually ease barriers of entry. While the politics behind these decisions may be endlessly debated, the impact on global markets has begun to take shape. As China's share of global trade has grown, the fate of the Chinese economy and many other countries have become irrevocably intertwined. With the internationalisation of the renminbi, trades can now be settled in the Chinese currency. Increasingly, there are also reports – validated by data from the IMF – that the use of the renminbi as a reserve currency is on a rise.

China has publicly declared that it would not "weaponise" the renminbi by allowing it to weaken. Meantime, a liquidity squeeze in the offshore yuan market has helped manage volatility and mitigate downward pressure applied on the currency by trade tariffs. Market participants are likely to view the announcement of "PBOC Bills" to be issued in Hong Kong as a move that would provide the People's Bank of China greater control of the CNH forward curve.

Public support from the central bank and the slew of measures announced since August have also implied that in the short term at least, the risk of the renminbi weakening past 7 against the U.S. dollar may be limited. As a result, the USD/CNH moved in a narrow range for the most part in September. The decline in renminbi volatility in September affected the SGX USD/CNH trading volume as **the average daily volume (ADV) in September dropped to US$2.47 billion** from US$2.81 billion in August.

Chart 3: Renminbi stays in narrow range in September

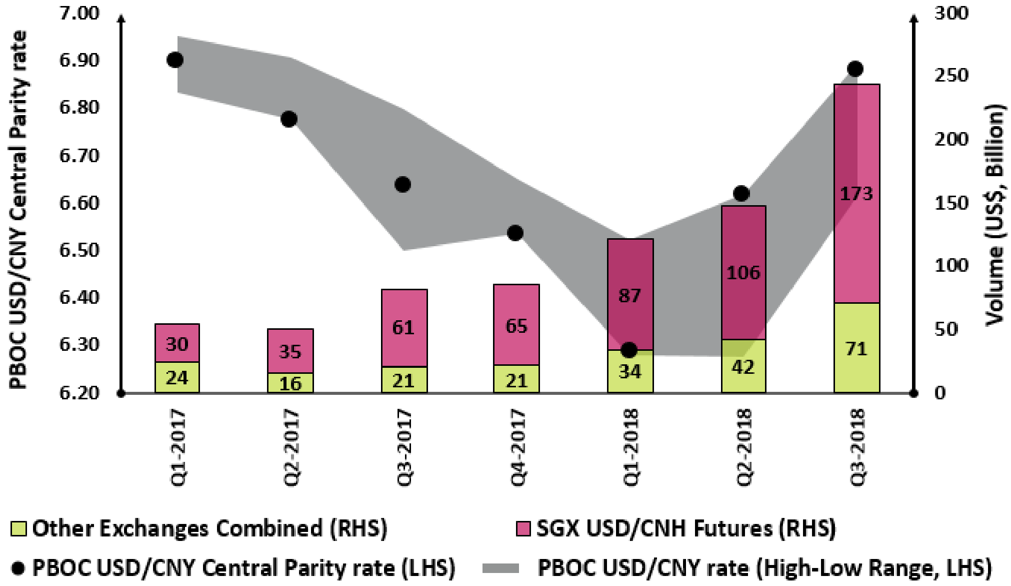


Data sources: SGX, Bloomberg

Total volume of SGX USD/CNH futures in September stood at US$47 billion, up 68% year-on-year but down 27% month-on-month. Despite the drop in September, cumulative volume in SGX USD/CNH futures in 3Q 2018 was US$173 billion, bringing the year-to-date total to more than US$366 billion – signaling robust growth of 93% over the full year volume in 2017.

Trading in SGX USD/CNH futures crossed US$1 billion for 69 continuous days between 19 June and 21 September, with nearly US$188 billion transacted in the period. Previously, a similar run of trading days (33 days, US$54.4 billion) with volume in excess of US$1 billion ended on 15 June this year.

Chart 4: Strong growth in SGX USD/CNH Futures trading volume



Data sources: SGX, Bloomberg

SGX INR/USD futures at US$92 billion in 3Q; rupee on verge of crossing 73

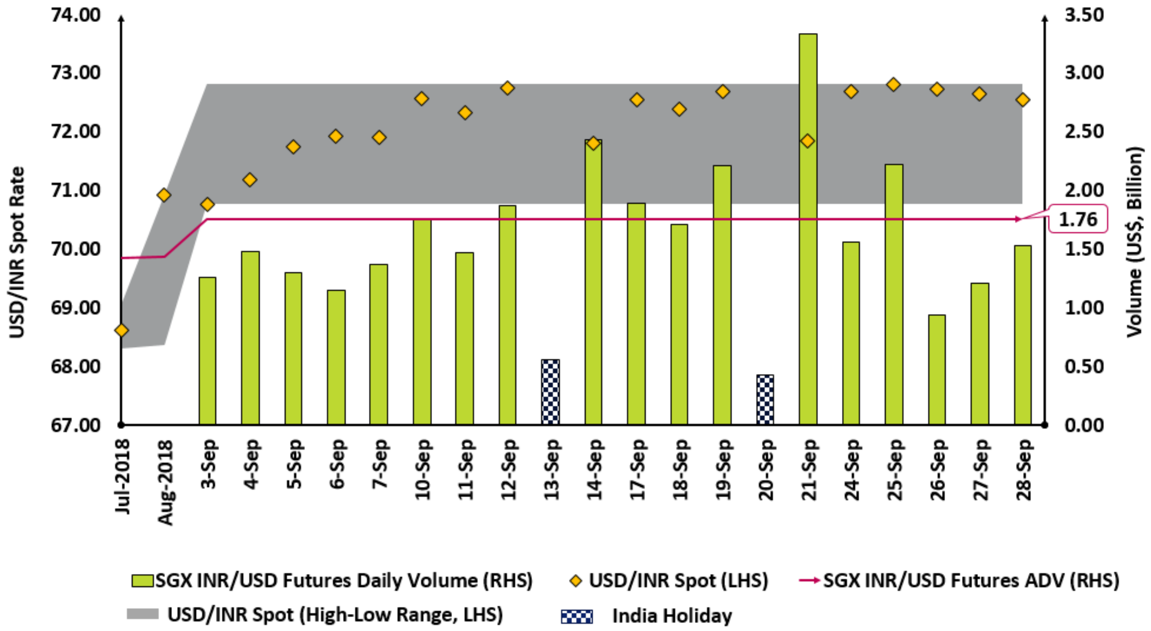
As has been the case for the last few months, India's rupee weakened yet again in September and climbed to 72.99 against the U.S. dollar. A falling rupee – it has depreciated nearly 13.5% since the start of the year – and a widening current account deficit that currently stands at a five-year high, alongside continued risk from elevated oil prices, have seemingly forced the Indian government into taking corrective action. It announced a plan to counter the headwinds by loosening restrictions on overseas borrowing, easing the cap on foreign ownership of corporate bonds and possible tax-exemptions on debt securities sold abroad. While some of these steps have aided in a small recovery, the rupee was by no measure out of the woods yet, as another scandal rocked the markets in September.

IL&FS, a big non-banking firm involved in infrastructure lending business in India, collapsed in September after failing to fulfil payment obligations. With many financial institutions in India including mutual funds and insurance companies have exposure to IL&FS, the distribution of total exposure is still not fully known. This issue has endangered the wider financial ecosystem in India. In the process, it has also put additional pressure on the rupee and on government finances. Mounting liquidity concerns also hit valuations across the entire sector comprising of non-banking finance companies, as institutions scrambled to identify and mitigate exposure.

The Indian government has sought to coordinate its response to boost investor confidence. On 27 September, it raised import taxes on approximately US$12 billion of goods to narrow the current account deficit. On the following day, the Reserve Bank of India took steps to ease liquidity for lenders by allowing banks to dip into statutory liquidity reserves to help them meet their liquidity coverage ratio needs. This would free up cash available for lending and alleviate liquidity concerns.

With weak sentiments around broader EM aggravating matters, investment flows from foreign portfolios investors (FPIs) have been negative in the last two quarters. Foreign investors pulled out more than US$2.9 billion from India in September, taking the total net withdrawals for the year to nearly US$8.8 billion.

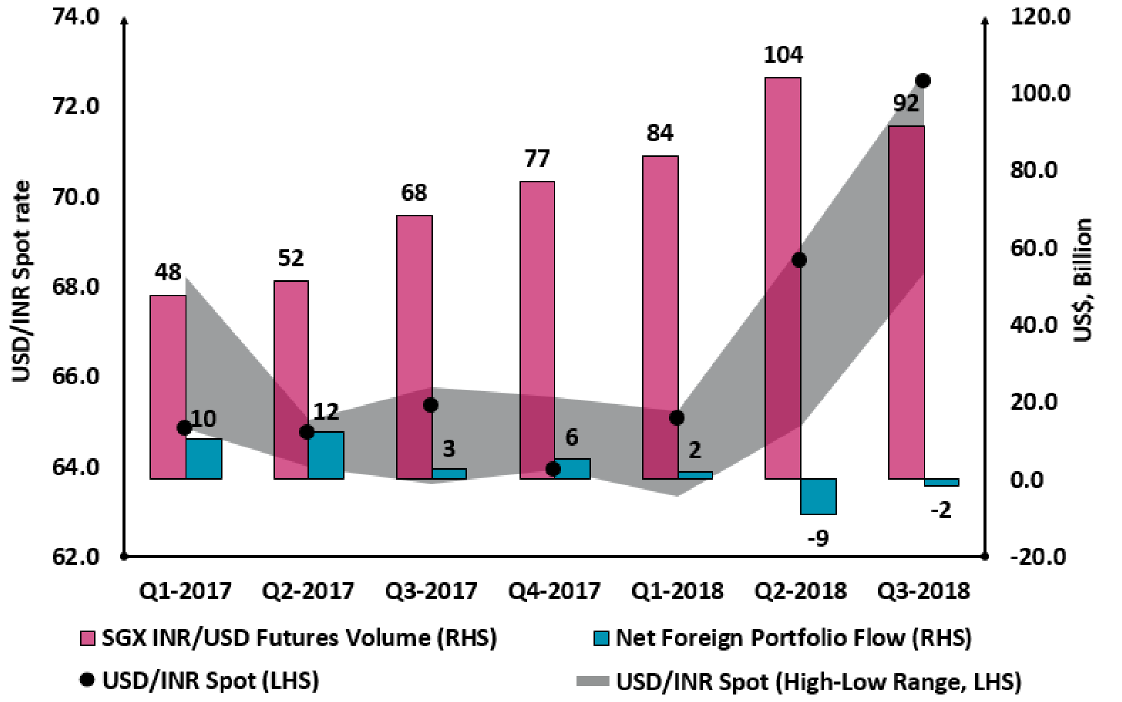
Chart 5: SGX INR/USD futures ADV rises in September



Data sources: SGX, Bloomberg

Given the turn of events, rupee trading was volatile through September. Despite trading holidays, total volume and ADV for SGX INR/USD futures rose from August. **Trading in SGX INR/USD futures in September was above 1.14 million contracts or US$31.68 billion. This represents an increase of 14% year-on-year and 15% month-on-month**. **ADV for SGX INR/USD futures in September was US$1.76 billion**, up from US$1.43 billion in August. On a cumulative basis, the total volume of SGX INR/USD futures in 3Q 2018 was about US$92 billion, up 34% on a year-on-year basis, taking the total volume in 2018 year-to-date to US$280 billion.

Chart 6: FPI flow negative in 3Q as rupee weakens to record low



Data sources: SGX, Bloomberg

How to access information on SGX FX Futures contracts:

Product	*SGX Ticker Symbol*	*Bloomberg Ticker*	*Thomson Reuters Ticker*
SGX USD/CNH Futures	UC	XUCA <CURNCY> CT	<0#SUC:>
SGX INR/USD Futures	IU	XIDA <CURNCY> CT	<0#SDIU:>
SGX KRW/USD Futures	KU	XUWA <CURNCY> CT	<0#SDKU:>

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