tradetech FX

Buy-Side Perspectives: How Market Participants Embrace FX Futures

INSIGHTS
Worldwide Business Research

EUREX

Contents:

3 Methodology

5 Key Findings

7 Hybrid Approach to FX Liquidity

8 Part one: Understanding the use of FX futures at buy-side firms

15 Part two: Looking to the future

20 Part three: Low-touch and electronification

26 Conclusion

27 Key Suggestions

28 About Eurex

28 About WBR Insights

Contributors:

Rico Milde
Head of FX Trading
Union Investment

Imanol Urquizu
Head of Derivatives
Santander Asset Management

Simona Composto
Executive Director, Listed Derivatives and OTC Clearing Sales (EMEA)
Goldman Sachs

Antony Harden
Executive Director, Listed Derivatives Sales Trading (EMEA)
Goldman Sachs

Chris Callander
Head of FX Trading – Europe
Societe Generale

David Holcombe
Head of Product: FX Futures & Clearing
360T

Jens Quiram
Global Head of FIC Derivatives and Repo Sales
Eurex

Tobias Rank
Head of FX Product Sales
Eurex

Francesca Dell'Era
Head of FIC Sales Central & Southern Europe
Eurex

Isabelle Blanche
Head of FIC Sales Northern Europe
Eurex

Methodology:

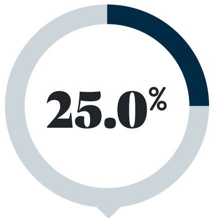
In the ever-evolving world of foreign exchange, staying ahead of the curve is paramount. To understand the pressing issues and emerging trends shaping the FX landscape in 2024, WBR Insights surveyed 120 leaders from buy-side firms across APAC, Europe, and North America in Q2 to find out about their top challenges.

This report is a three-part journey. First, we examine how buy-side firms are leveraging FX futures to their advantage. Then, we look towards the future and the key factors for making FX futures attractive, before considering the rise of low-touch execution and electronification in listed FX derivatives markets.

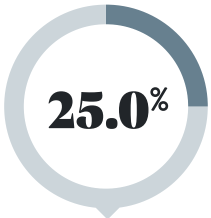
The survey was conducted by appointment over the telephone. The results were compiled and anonymized by WBR Insights and are presented here with analysis and commentary from Eurex and the TradeTech FX community.

What is your firm's primary business type?

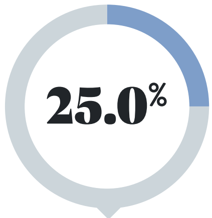
Asset Management



Pension Fund

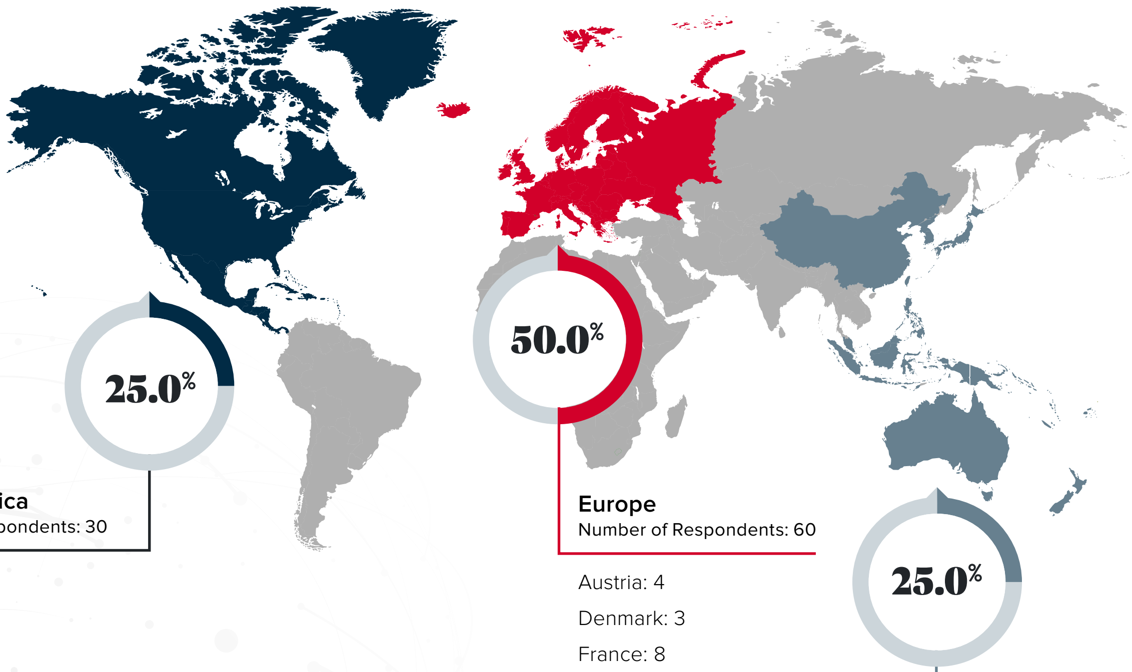


Insurance / Insurance Asset Management



Hedge Fund / CTA

In which country are you currently based?



North America
Number of Respondents: 30

Canada: 5
America: 25

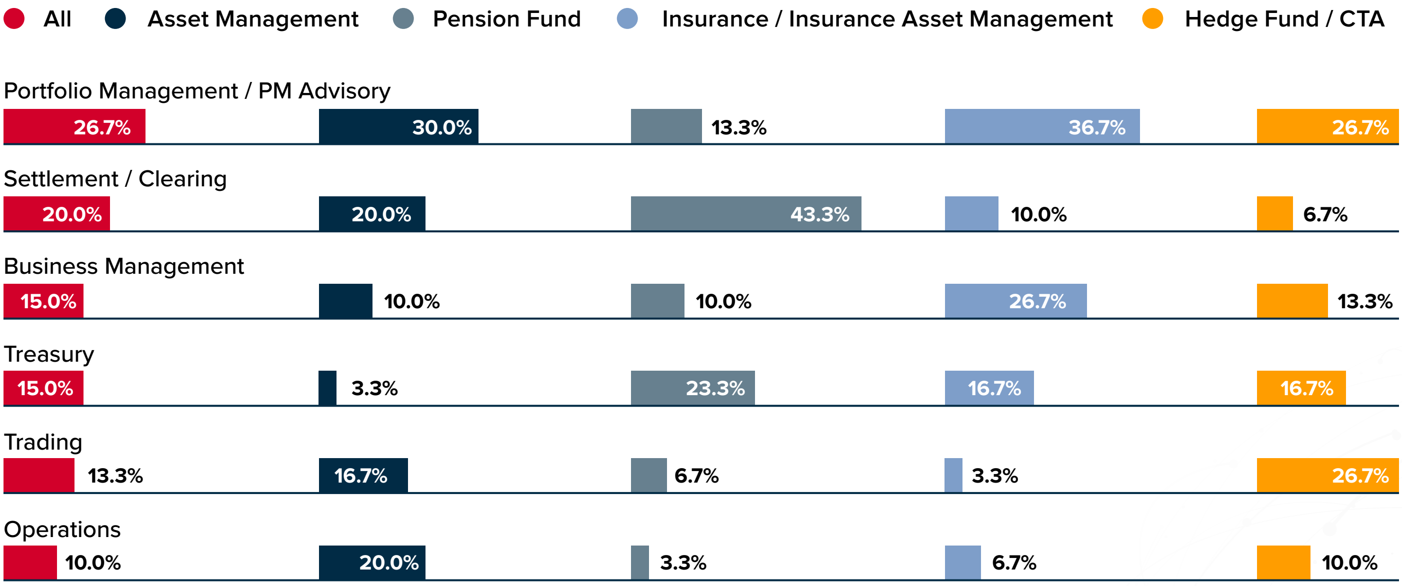
Europe
Number of Respondents: 60

Austria: 4
Denmark: 3
France: 8
Germany: 12
Italy: 8
Netherlands: 6
Spain: 4
Sweden: 1
Switzerland: 6
United Kingdom: 8

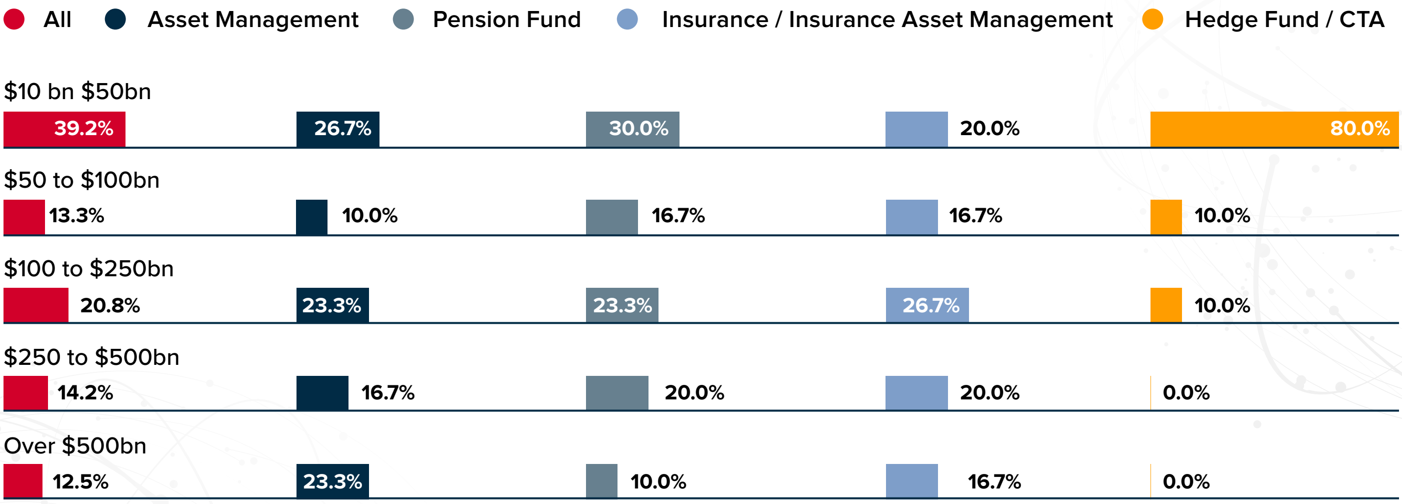
APAC
Number of Respondents: 30

Australia: 7
Hong Kong: 8
Japan: 7
Singapore:8

What best describes your role or job title?



What are your firm's approximate assets under management (AUM)?



Key Findings:

The FX market is experiencing a dynamic shift. Amid growing concern over regulatory compliance and efficient portfolio management, FX traders are increasingly embracing hybrid trading models. These models combine the transparency and efficiency of exchange-traded FX futures with the flexibility of over-the-counter (OTC) liquidity. Consequently, FX futures are rapidly emerging as the go-to tool for optimizing FX portfolios.

1. Understanding the use of FX futures at buy-side firms

95% of asset managers, pension funds, insurance companies, and hedge funds, as well as CTAs surveyed, are already integrating FX futures into their current trading strategies. Nearly three-fourths of the firms surveyed conduct as much as 30% of their FX operations through FX futures. Furthermore, there is a unanimous expectation among all respondents to expand their activities in listed FX futures going forward.

Several factors contribute to the growing adoption of FX futures. Enhanced market access, evolving market sentiment, and regulatory considerations are pivotal. Participants in the survey also highlighted significant challenges in the OTC FX market, including uncleared margin rules (UMR), liquidity challenges, and rising capital costs for the sell-side.

To address these challenges, market participants view FX futures as valuable tools to mitigate regulatory costs, enhance transparency, and ensure compliance. Consequently, the survey finds that three quarters of the firms plan to make greater use of FX futures within the next 12 months. The remaining firms anticipate an increasing use of FX futures within 24 months.

2. Looking to the future

FX futures are emerging as a critical tool for market participants navigating the complexities of the evolving financial landscape. Amidst this trend, they continue to appreciate the bilateral trading model that is inherent to FX markets. Notably, asset managers and pension funds express a preference for executing FX futures directly with their trusted FX dealers. These bilateral workflows not only provide ongoing access to OTC liquidity but also serve as a conduit for maintaining and nurturing both existing and new client relationships on the sell-side.

Block trades emerge as the favored execution model for FX futures among buy-side firms. These trades facilitate immediate risk transfer with FX dealers, operating within a bilateral and fully disclosed framework. The versatility of block trades allows for execution in virtually any size, closely resembling the practices observed in the FX spot and forward markets.

Furthermore, our survey reveals a growing interest in exchange-for physical (EFP) solutions. FX dealers are actively exploring EFP-driven execution models, often granting algo-facilitated access to FX spot liquidity to establish FX futures positions.

In summary, as the adoption of FX futures gains momentum, buy-side firms recognize the value of bilateral workflows and seek execution models that align with their risk management needs and liquidity preferences.

> "Notably, asset managers and pension funds express a preference for executing **FX futures** directly with their trusted FX dealers."

3. Low-touch and electronification

The shift towards FX futures is accompanied by a buy-side inclination to enhance the electronification and automation of bilateral trading models. Market participants appreciate the automation of the exchange's order books, yet they advocate for a similar level of automation for processes associated with block trades and EFPs. This advancement is crucial for streamlining operations and mitigating risks associated with manual interventions.

Our survey indicates a strong preference among buy-side firms for integrating FX futures into their OTC FX execution management systems (EMS). Such integration would streamline workflows and consolidate trading activities onto a single, efficient platform. Although not all platforms are currently equipped to support FX futures, the trend is clear: there is a burgeoning demand for a unified EMS capable of managing the entire spectrum of FX transactions.

> "Market participants appreciate the automation of the exchange's order books, yet they advocate for a similar level of automation for processes associated with block trades and EFPs."

The Hybrid Approach to FX Liquidity

Jens Quiram
Global Head of FIC Derivatives and Repo Sales
Eurex

Recent years have brought significant regulatory reform to derivatives markets, with clearing mandates, regulatory capital and margin regimes materially shifting the cost structure of OTC derivatives trading.

Taken alone, however, these changes have not diminished some well-established OTC markets that have built deep liquidity pools over the years. A prime example of this is OTC FX, where participants adapt to new capital and margin requirements by incorporating cleared FX instruments despite the absence of any clearing obligation. All while relying on existing liquidity pools based on long-established market structures.

As such, the new FX market setup that is emerging in a world of higher OTC capital costs and stricter collateralization requirements is taking an intriguing shape. Instead of a blunt shift from OTC to listed markets, FX derivatives activity is merging the two formats. Market participants are increasingly seeking instruments that hold down the cost of trading, while at the same time pursuing as little disruption as possible to their existing infrastructure and workflows.

This has led to an evolution of the FX futures market that varies from the trajectory of other listed markets. As a major liquidity hub for cleared FX, Eurex holds a central position in this transition to a melded OTC and listed FX market. We believe that this transformation will be defined by four key elements, which will drive the evolving FX ecosystem in years to come.

Future-proofed markets: UMR have raised the funding requirement of OTC derivatives trading, while the standardized approach for counterparty credit risk (SA-CCR) has increased the capital costs of using FX forwards and swaps. This has put FX derivatives dealers' high volume/low margin business models under pressure, with some already passing these regulatory costs on in the final pricing offered to their clients.

As such, the attraction of futures as a component of the FX portfolio has grown. More buy-side clients are adopting these instruments alongside their OTC positions, diversifying their books with cleared and fully collateralized products. This approach enables firms to stay below relevant UMR thresholds and lowers initial margin calculations through netting.

Evolution, not revolution: Bilateral dealer-client relationships are a well-established feature of the OTC FX markets and one that many buy-side clients do not want to lose. Futurization of FX will not displace these links, and while central limit order book (CLOB) liquidity will be available for users, it merely expands options for execution. It is not a replacement for OTC market structure. Futures will integrate into FX markets, rather than the other way around.

Low-touch: Previous models of adoption saw FX futures offered by dealers' futures desks. In line with the principle of minimal disruption, FX futures have been increasingly adopted on e-FX desks within banks. This has allowed for greater cross-product integration and innovation in services and workflows, while allowing clients to maintain their existing infrastructure for FX trading. Clients can already use hybrid execution models that tap OTC liquidity before executing in the futures format, for example.

Electronification: FX futures are an electronified product, especially when executed through the order books of futures exchanges. But a central component of FX futurization has been the ability to trade outside the order book and face dealer or client in a bilateral trade. These bilateral trading models for FX futures are currently going through phases of greater automation. As such, integration into multi-dealer platforms like 360T has been a foundational principle of FX futures' development.

> "Instead of a blunt shift from OTC to listed markets, **FX derivatives** activity is merging the two formats."

Taken together, we see these four components driving an FX futures market that grows in tandem with the market's established sources of OTC liquidity. The results so far have been encouraging. Innovation is already happening in the form of novel EFP execution services that link listed with OTC FX markets.

Momentum is also building in the form of more bank and non-bank participants supporting the listed product — either as clearing brokers or liquidity providers. This is rapidly opening up the avenues through which the buy-side can access FX futures with complete ease and cementing Eurex's position as a hub for cleared FX.

Part one:
Understanding the use of FX futures at buy-side firms

95% of asset managers, pension funds, insurance companies, and hedge funds, as well as CTAs surveyed, are already integrating FX futures into their current trading strategies. Nearly three-fourths of the firms surveyed conduct as much as 30% of their FX operations through FX futures. Furthermore, there is a unanimous expectation among all respondents to expand their activities in listed FX futures going forward.

Several factors contribute to the growing adoption of FX futures. Enhanced market access, evolving market sentiment, and regulatory considerations are pivotal.

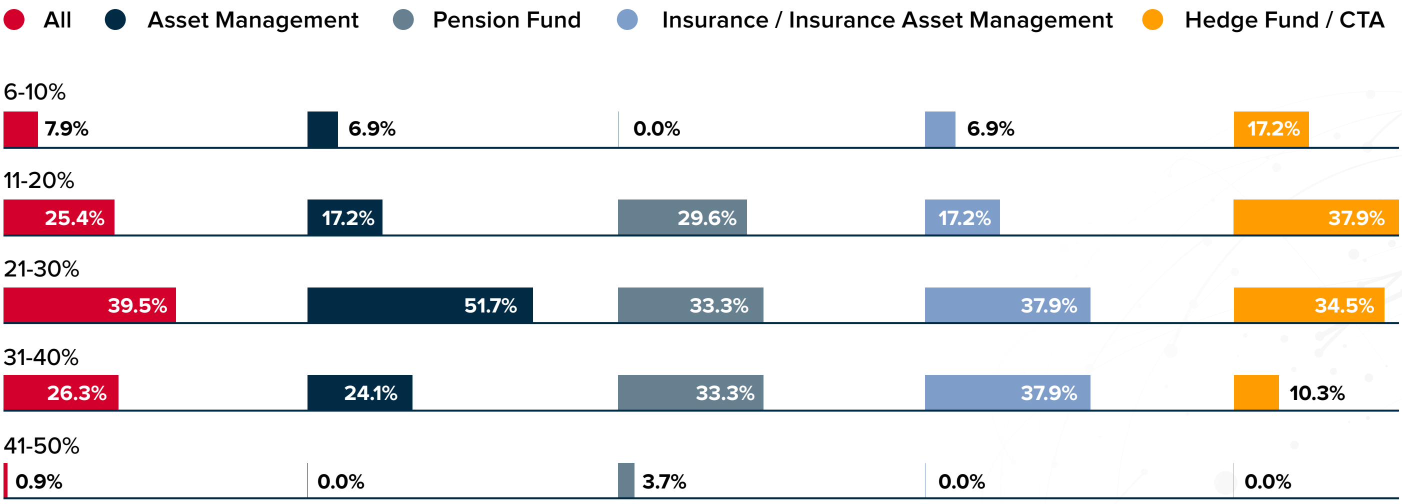
Participants in the survey also highlighted significant challenges in the OTC FX market, including UMR, liquidity challenges, and rising capital costs for the sell-side.

To address these challenges, market participants view FX futures as valuable tools to mitigate regulatory costs, enhance transparency, and ensure compliance. Consequently, the survey finds that three quarters of the firms plan to make greater use of FX futures within the next 12 months. The remaining firms anticipate an increasing use of FX futures within 24 months.

“95% of asset managers, pension funds, insurance companies, and hedge funds, as well as CTAs surveyed, are already integrating **FX futures** into their current trading strategies.”

Key Finding: Hybrid models are on the rise. The FX market is going through a transition phase and market participants are looking for a way to integrate FX futures into their trading model. Nearly three-fourths of the firms surveyed are executing as much as 30% of their FX business via exchange-traded FX futures. 95% of our survey respondents are currently using these instruments to some extent; a clear sign that firms view FX futures as a way to increase efficiency and stand out from the crowd.

What proportion of your FX business is executed via exchange-traded FX futures?



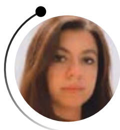
"We have continuously expanded our share in FX futures due to our general preference for listed and centrally cleared derivatives. FX futures provide operational and regulatory benefits over OTC FX instruments. As such, we are not surprised about the increasing utilization of listed FX derivatives in the current market environment."

Rico Milde
Head of FX Trading
Union Investment

"Despite the absence of a clearing mandate for FX, market participants across the board are actively utilizing cleared FX futures products. This trend underscores the inherent value proposition of FX futures in portfolio optimization. Market participants frequently employ a hybrid approach, integrating FX futures with OTC FX instruments. This combined approach enhances overall performance and execution capabilities."

Tobias Rank
Head of FX Product Sales
Eurex

"We continue to see a trend of 'futurization' of products across our multi-asset desk as well as a move into cleared product in general. Our clients continue to face headwinds from regulations such as UMR and SA-CCR as well as operational inefficiencies of OTC and credit constraints. Futures offer an alternative wrapper that removes a lot of this noise and offers transparency and margin efficiencies. Usually this starts with the core G10 pairs; for our clients who are already using futures for other asset classes it's an easy extension of the current business as FX futures can be traded in the same accounts with no additional documentation or set up required."



Simona Composto
Executive Director, Listed Derivatives and OTC Clearing Sales (EMEA)
Goldman Sachs

"The FX world has always been an OTC market, and I think to see the proportion of FX futures grow, we will need to see liquidity continue to increase as it has done over the past three years. In the next two to three years, we will probably see more respondents executing an even greater share of their business via listed FX futures."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

Key Finding: Respondents are relying on FX futures for various use cases, highlighting the versatility of listed FX instruments. While FX futures have traditionally been used for hedge and speculation purposes, more than half of the respondents also refer to FX futures to diversify their portfolios (57%) or to manage their liquidity needs (50%).

What are you using FX futures for?

	All	Asset Management	Pension Fund	Insurance / Insurance Asset Management	Hedge Fund / CTA
Portfolio diversification	57.0%	62.1%	40.7%	65.5%	58.6%
Hedging currency risk	56.1%	62.1%	59.3%	37.9%	65.5%
Enhancing yield or returns	52.6%	55.2%	51.9%	58.6%	44.8%
Arbitrage opportunities	51.8%	51.7%	55.6%	48.3%	51.7%
Liquidity management	50.0%	41.4%	55.6%	55.2%	48.3%
Regulatory compliance	47.4%	44.8%	55.6%	37.9%	51.7%
Speculation / alpha generation	44.7%	51.7%	51.9%	44.8%	31.0%

Respondents were asked to select all answers that applied.

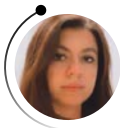
"While it's true that many traditional mutual funds and asset managers are still in the early stages of adopting FX futures, the trend towards these instruments is not something that can be ignored. It's a shift that's gaining momentum and is likely to shape the future of financial institutions."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"FX futures can be useful to diversify portfolios, for example in the case of multi-asset funds with sizeable OTC exposure. By adding listed FX futures, we can improve the overall portfolio structure in these cases. Hedging, speculation, and regulatory reasons are common use cases for FX futures as well."

Rico Milde
Head of FX Trading
Union Investment

"It is encouraging and in line with our expectations to see clients expanding their use of FX futures, which we have been traditionally seen employed for hedging currency risk. We expect this trend to continue and the use cases of futures extend to overlays, cash management and Beta replacement."



Simona Composto
Executive Director, Listed Derivatives and OTC Clearing Sales (EMEA)
Goldman Sachs

"We quote FX EFPs and blocks on a principal basis to our customers so that they can benefit from our OTC liquidity with the added advantage of their trade being placed in a listed exchange 'wrapper'.

Most of the FX futures users we quote are relying on these instruments for regulatory and compliance reasons. Typically, it is their underlying mandate that defines whether they do OTC or Listed."

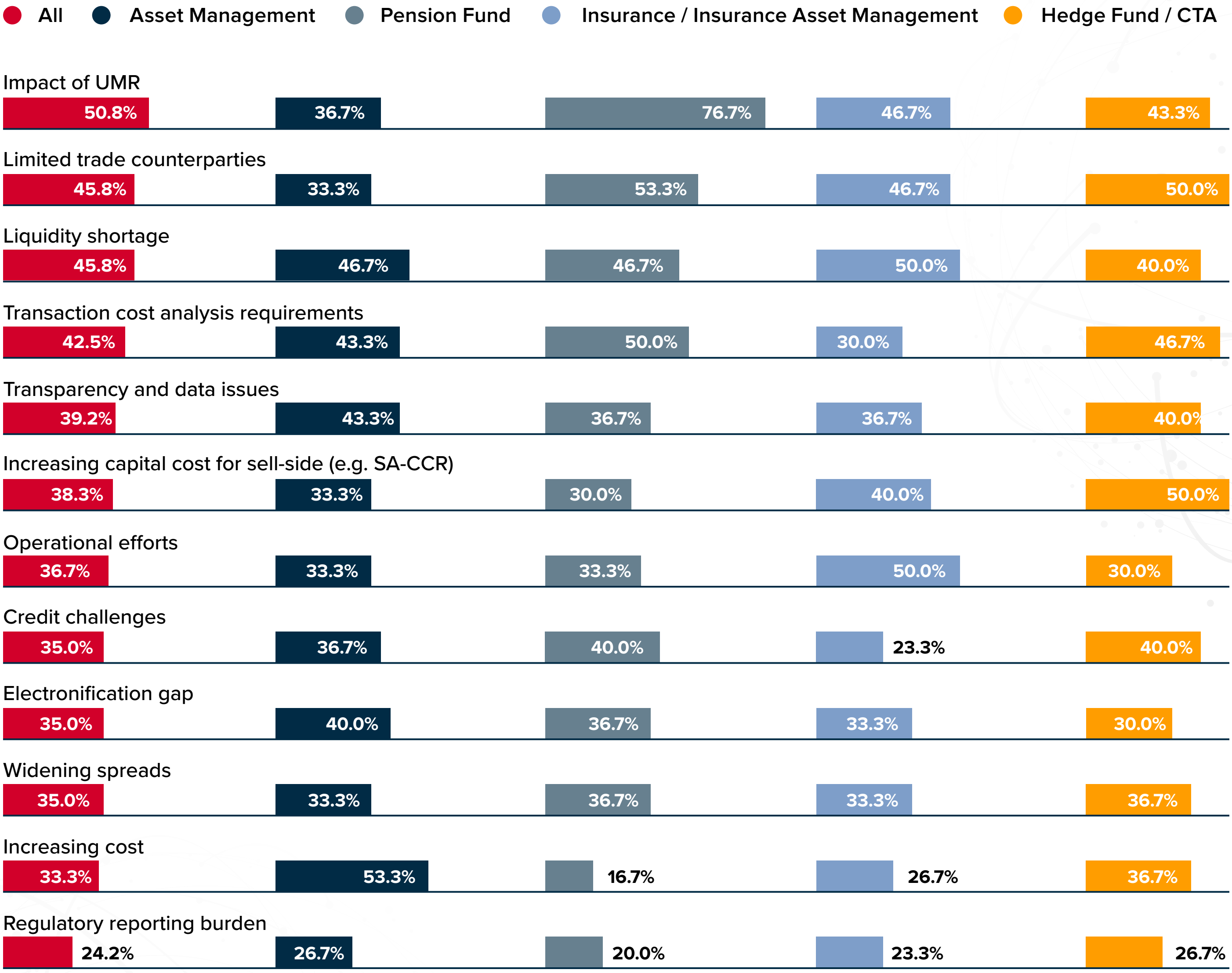
Chris Callander
Head of FX Trading – Europe
Societe Generale

"As an exchange, we are pleased to see the diverse use of FX futures among buy-side firms. Traditionally, these instruments were predominantly used for hedging FX risks in portfolios by the real-money buy-side community. The responses to this question confirm that FX futures are now being applied to a wide range of use cases, such as enhancing yields and managing liquidity needs. FX futures are therefore becoming more mainstream."

Francesca Dell'Era
Head of FIC Sales Central & Southern Europe
Eurex

Key Finding: Half of all respondents find UMR to be the greatest challenge in OTC FX markets, with pension funds prone to be impacted due to their typically more extensive portfolios. This can restrict trading opportunities and potentially increase costs. This is followed by challenges in OTC FX markets involving the limited availability of trade counterparties and associated liquidity shortages.

What are major challenges you face in OTC FX markets?



Respondents were asked to select all answers that applied.

"We remain largely unaffected by UMR and similar regulatory reforms as we aim to minimize the share of uncleared derivatives in relevant portfolios.

However, some of our bank counterparties have indicated tighter spreads for listed FX futures as a result of increasing bank capital charges affecting OTC FX markets."

Rico Milde
Head of FX Trading
Union Investment

"When I saw this result, I was surprised that regulatory compliance got voted so low. Strong regulations are coming into play in the US and Europe, so fund managers will already see the benefits of adapting to these."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

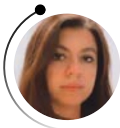
"We see operational efforts as one of the greatest challenges in OTC FX markets, especially when complex customer structures are involved. The onboarding of clients requires dedicated paperwork (such as ISDA and CSA) and account mappings for each fund. This can lead to exponentially increasing efforts when dealing with sophisticated account structures."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"It is not surprising to see regulatory compliance (UMR) as one of the key factors and we would also underline that futures offer a transparent wrapper which can be intrinsically more cost effective through ease of clearing and potential margin offsets.

Credit optimization remains one of the key challenges for

many market participants and the ability to utilize futures as centrally cleared instruments, dramatically eases the burden for both buy-side and sell-side."



Simona Composto
Executive Director, Listed Derivatives and OTC Clearing Sales (EMEA)
Goldman Sachs

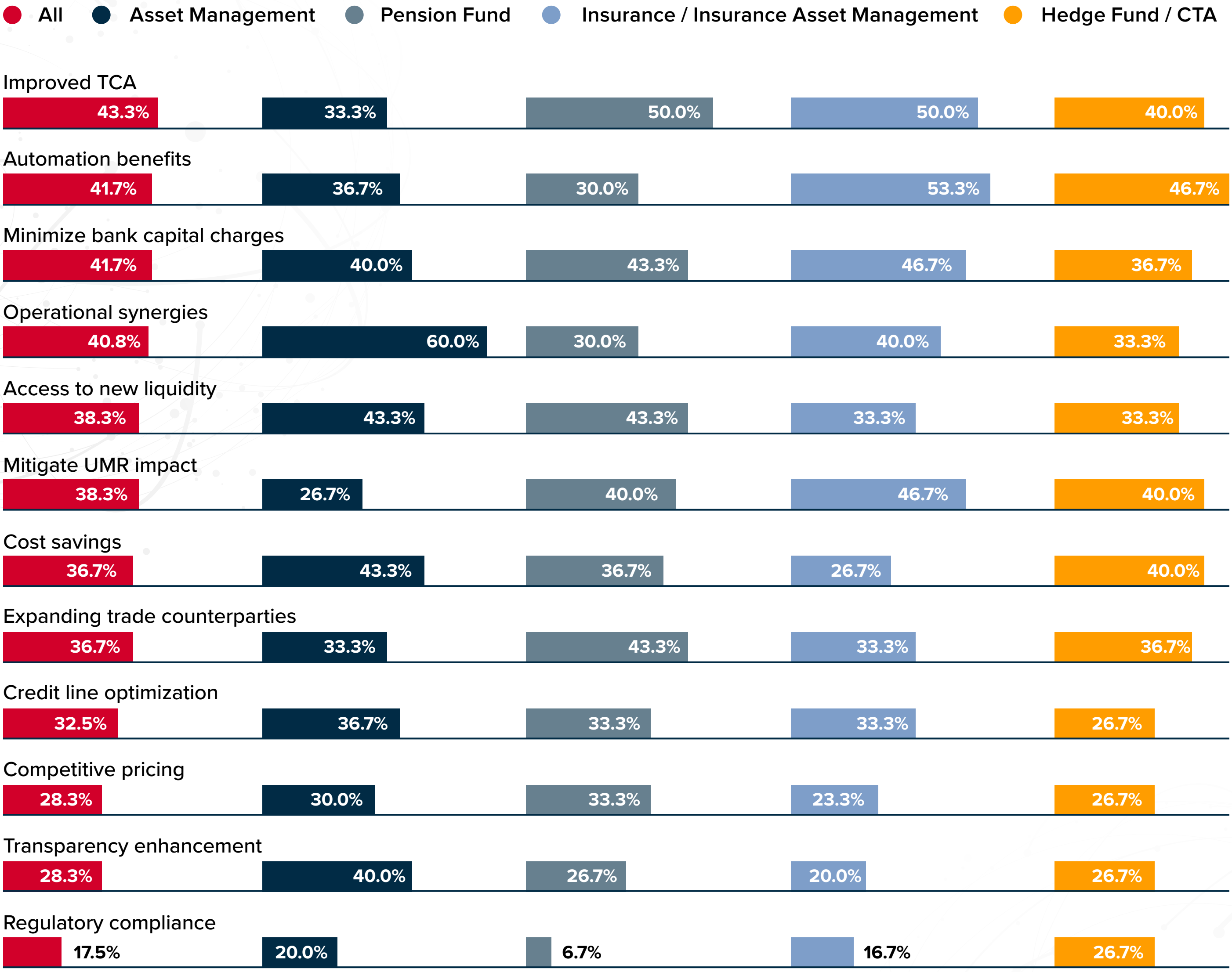
"UMR continue to pose significant challenges in OTC FX markets. This is largely attributed to the fact that uncleared FX derivatives contribute towards the UMR thresholds, thereby determining the applicability of UMR to various firms. Consequently, firms with substantial FX portfolios that fall within the UMR scope are obligated to exchange collateral for their non-FX assets. This underscores the intricate interplay between regulatory compliance and portfolio management in the realm of FX trading."

Tobias Rank
Head of FX Product Sales
Eurex

"Half of all respondents find UMR to be the greatest challenge in OTC FX markets, with pension funds prone to be impacted due to their typically more extensive portfolios."

Key Finding: Buy-side firms are valuing FX futures instruments to enhance their transaction cost analysis (TCA) capabilities and for automated straight-through processing (STP). Respondents also view FX futures as a suitable way to minimize bank capital charges, making them an efficient tool for the buy-side to maintain access to FX dealer liquidity. Additionally, participants grappling with UMR see FX futures as a potential solution to mitigate the impact of current regulations.

What are main reasons for you to consider using FX futures?



Respondents were asked to select all answers that applied.

"For OTC FX transactions, we are limited to cash-collateral only. FX futures enable us to optimize our collateral structure by leveraging our securities inventory as collateral. And we can achieve greater automation through FX futures by routing smaller orders to the exchange directly."

Rico Milde
Head of FX Trading
Union Investment

"For our clients, FX futures enable access to FX forward liquidity when they cannot access OTC FX derivatives, e.g. due to the lack of OTC master agreements or missing collateralization capabilities. Whilst UMR, price efficiencies, visibility and costs are important – I feel they have not yet been the main drivers."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"The first movers are often those that are already using futures for other asset classes. The low cost and transparency of the order book coupled with GS principal block liquidity gives our client the choice to achieve 'best execution'."

Antony Harden
Executive Director, Listed Derivatives Sales Trading (EMEA)
Goldman Sachs

"These results underline that there is rarely one single reason clients want to use FX futures, as each firm places their own priority through the easily achievable wins around credit, cost, and operational effectiveness. This serves as a good indication though, that to fully consider how FX futures will enhance your business, you do need to take a more holistic view than just using a headline per-trade fee comparison against your current OTC provider."

David Holcombe
Head of Product: FX Futures & FX Clearing
360T

"FX futures effectively mitigate OTC FX market challenges. Their transparency fosters enhanced transaction cost analysis, while their standardization facilitates automated end-to-end processing. By trading through a derivatives exchange, market participants can diversify their counterparty network, thereby augmenting liquidity sources. Concurrently, FX futures optimize portfolios in compliance with UMR and capital requirements, underscoring their strategic value in complex market landscapes."

Tobias Rank
Head of FX Product Sales
Eurex

" Half of all respondents find UMR to be the greatest challenge in OTC FX markets, with pension funds prone to be impacted due to their typically more extensive portfolios."

Part two:

Looking to the future

FX futures are emerging as a critical tool for market participants navigating the complexities of the evolving financial landscape. Amidst this trend, they continue to appreciate the bilateral trading model that is inherent to FX markets. Notably, asset managers and pension funds express a preference for executing FX futures directly with their trusted FX dealers. These bilateral workflows not only provide ongoing access to OTC liquidity but also serve as a conduit for maintaining and nurturing both existing and new client relationships on the sell-side.

Block trades emerge as the favored execution model for FX futures among buy-side firms. These trades facilitate immediate risk transfer with FX dealers, operating within a bilateral and fully disclosed framework. The versatility of block trades allows for execution in virtually any size, closely resembling the practices observed in the FX spot and forward markets.

Furthermore, our survey reveals a growing interest in EFP solutions. FX dealers are actively exploring EFP-driven execution models, often granting algo-facilitated access to FX spot liquidity to establish FX futures positions.

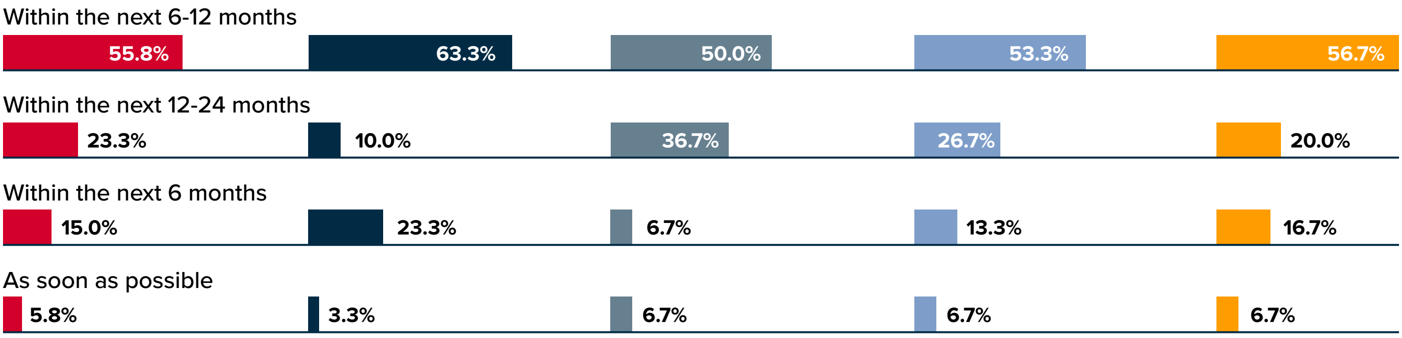
In summary, as the adoption of FX futures gains momentum, buy-side firms recognize the value of bilateral workflows and seek execution models that align with their risk management needs and liquidity preferences.

"... as the adoption of **FX futures** gains momentum, buy-side firms recognize the value of bilateral workflows and seek execution models that align with their risk management needs and liquidity preferences."

Key Finding: Our survey reveals a significant shift towards FX futures, with an overwhelming majority of buy-side firms planning to increase their usage. Notably, 55% aim to do so within the next 6 to 12 months, and an additional 23% are targeting a 12 to 24-month timeframe. This surge in demand is likely to be mirrored by the sell-side ramping up FX futures execution services for the buy-side in the very near future.

Do you plan to make greater use of FX futures? If so, by when?

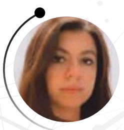
● All ● Asset Management ● Pension Fund ● Insurance / Insurance Asset Management ● Hedge Fund / CTA



"It is positive that such a large number of portfolio managers are moving towards FX futures and plan to make greater use of these in the very near future. The only reason I can think of for them not doing so as soon as possible is that people are waiting to see if liquidity will start increasing. This is the current challenge, and the participants' education and understanding of the product will make this work. We all must take the step forward together since it will benefit us all (client, broker, exchange, governments, etc.)."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"It is striking that all the participants are planning to make some changes and most of them within the next 6 to 12 months. This is again in line with our experience and expectation. As it often happens with these markets and type of products, the increased market participation will lead to additional liquidity but also importantly, product innovations."



Simona Composto
Executive Director, Listed Derivatives and OTC Clearing Sales (EMEA)
Goldman Sachs

"We see a continuously growing demand for FX futures. This is particularly true for special funds and managed accounts due to the regulatory treatment of FX futures in comparison to OTC FX derivatives."

Rico Milde
Head of FX Trading
Union Investment

"We have been quoting FX futures for over 20 years at SG and have a highly experienced team dedicated to this. In recent years we've seen an exponential growth in this area and continue to grow our market share where we can."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"We expect the buy-side to make greater use of FX futures, due to regulatory incentives, sell-side advancements and the operational benefits that FX futures can offer. Beyond benefits for the buy-side, FX futures present opportunities for FX dealers to achieve capital cost efficiencies and operational synergies. Consequently, FX dealers are progressively expanding their automated execution services for FX futures, thereby catering for the growing demand of the buy-side."

Jens Quiram
Global Head of FIC Derivatives and Repo Sales
Eurex

Key Finding: Regulatory compliance remains the top priority for participants when choosing FX futures. However, more than half of the respondents (53%) then actually prefer trading FX futures directly with FX dealers, highlighting the importance of sustaining bilateral relationships. Less than half (44%) still prioritize liquidity within the traditional order book. This is particularly true for hedge funds and CTAs, who may have a preference for anonymous and instantaneous trading models.

What is important to you when choosing FX futures instruments?

	All	Asset Management	Pension Fund	Insurance / Insurance Asset Management	Hedge Fund / CTA
Ensuring regulatory compliance	53.3%	56.7%	43.3%	63.3%	50.0%
Liquidity outside the orderbook, e.g. by FX dealers on bilateral basis	52.5%	60.0%	66.7%	46.7%	36.7%
Maintaining bilateral FX relationships	49.2%	40.0%	66.7%	50.0%	40.0%
Liquidity in the CLOB	44.2%	36.7%	53.3%	33.3%	53.3%
Automation	37.5%	23.3%	33.3%	46.7%	46.7%
Flexible value dates	35.0%	43.3%	33.3%	26.7%	36.7%
Prices / Spreads	33.3%	43.3%	16.7%	33.3%	40.0%
Flexible notional	25.0%	23.3%	23.3%	23.3%	30.0%

Respondents were asked to select all answers that applied.

"I think this result makes sense for where the industry is and is essential when choosing an FX future. It is crucial, of course, to have flexible value dates and have the ability to decide when the OTC will expire, so, interestingly, more people didn't mark this as higher, but this tells us that people are at beginning their regulatory and liquidity journey."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"I believe that for our customers, access to bilateral liquidity sources is crucial for buy-side firms following FX futures strategies. This OTC-style liquidity is increasingly important when it comes to confidently entering and managing meaningful FX futures exposure."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"As we've witnessed with other products launches our clients are keen for GS to provide off-screen block liquidity but also care to see that the order book is supported by market makers and other trading participants."

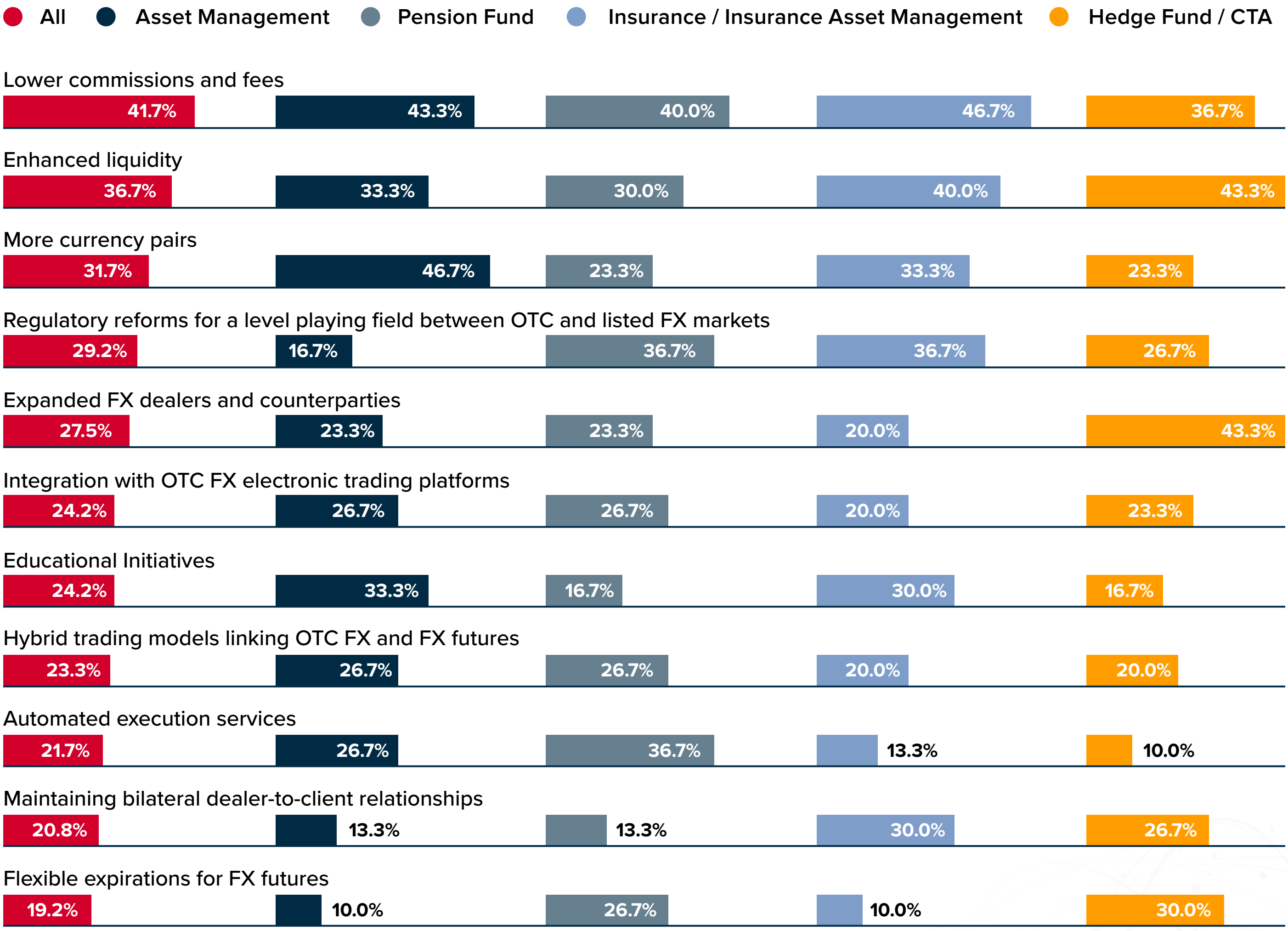
Antony Harden
Executive Director, Listed Derivatives Sales Trading (EMEA)
Goldman Sachs

"OTC FX markets have traditionally thrived on bilateral relationships. Consequently, it's understandable that market participants underscore the necessity for bilateral liquidity and the preservation of these relationships when trading FX futures. To cater to this need, exchanges provide relationship-based trading models in FX futures, such as block trades and EFPs, enabling participants to access OTC FX liquidity on a fully bilateral basis."

Isabelle Blanche
Head of FIC Sales Northern Europe
Eurex

Key Finding: At a time of market uncertainty and mounting cost pressures, it is no surprise that respondents cited liquidity, currency pair selection, and fee structures as the key factors for making FX futures attractive to market participants. However, a crucial gap remains as nearly half of hedge funds and CTAs see a need for a wider pool of FX dealers and counterparties in the FX futures markets.

What factors would make FX futures more attractive to FX market participants?



Respondents were asked to select the top three answers that applied.

"Exchanges should focus on offering greater initial margin offsets across products and foster on-screen liquidity, especially for currency pairs outside the G10 scope. Sell-side participants should continue to innovate FX futures markets by offering hybrid execution models."

Rico Milde
Head of FX Trading
Union Investment

"Greater liquidity in the CLOB, full integration of FX futures in OTC FX platforms and links between listed and OTC FX markets will be crucial to strengthen listed FX markets for clients. Dealers, on the other side, appreciate innovative order books for EFPs which can provide more tools to manage their FX futures inventory. Flexible futures expiries might provide greater customization to market participants but could also increase operational challenges as a result."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"Banks are progressively enhancing their liquidity provisions in FX futures markets by introducing hybrid trading models. These innovative models empower buy-side firms to access OTC FX liquidity pools while trading FX futures, effectively combining the advantages of both domains. In terms of cost efficiency, Eurex remains committed to providing market participants with the most economical access to the FX futures market."

Isabelle Blanche
Head of FIC Sales Northern Europe
Eurex

"...it is no surprise that respondents cited liquidity, currency pair selection, and fee structures as the key factors for making **FX futures** attractive to market participants."

Part three:
Low-touch and electronification

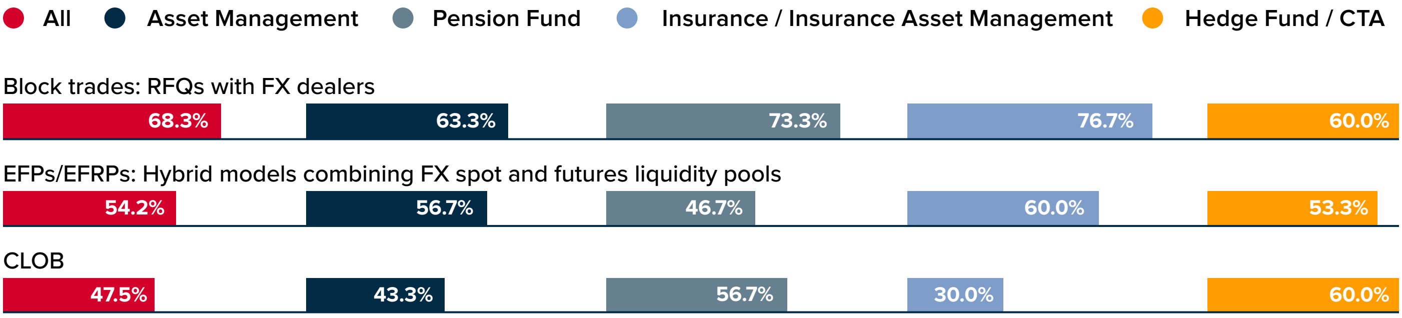
The shift towards FX futures is accompanied by a buy-side inclination to enhance the electronification and automation of bilateral trading models. Market participants appreciate the automation of the exchange's order books, yet they advocate for a similar level of automation for processes associated with block trades and EFPs. This advancement is crucial for streamlining operations and mitigating risks associated with manual interventions.

Our survey indicates a strong preference among buy-side firms for integrating FX futures into their OTC FX EMS. Such integration would streamline workflows and consolidate trading activities onto a single, efficient platform. Although not all platforms are currently equipped to support FX futures, the trend is clear: there is a burgeoning demand for a unified EMS capable of managing the entire spectrum of FX transactions.

"...integration would streamline workflows and consolidate trading activities onto a single, efficient platform."

Key Finding: Respondents expressed a clear preference for how they access FX futures liquidity. A significant number (almost 70%) favor block trades and 54% would rely on EFP execution models. Both methods offer direct trading models with FX dealers and increased access to OTC FX liquidity while maintaining bilateral relationships. Only then would respondents choose to execute in the CLOB, confirming its role as a complementing liquidity pool and transparent source for reference prices.

How would you prefer to access FX futures liquidity?



Respondents were asked to select all answers that applied.

"Block trades offer a compelling solution. They enable us to efficiently allocate across various currencies at a single, pre-negotiated price within a short timeframe. This streamlines the process, ensures fairness across holdings, and importantly, aligns well with regulatory compliance requirements, providing a secure and trustworthy method. For asset managers like us, block trades are a natural fit."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"It's not a surprise that bilateral request-for-quote (RFQ) and request-for-stream (RFS) trading is the choice of execution model for the majority of client types throughout listed FX, just as it is for the rest of their FX business. Though with EFP offerings really just starting to emerge now, it will be interesting to see how long the EFP line takes to pass beyond the others, as the edges between the use of futures and OTC FX increasingly blur."

David Holcombe
Head of Product: FX Futures & FX Clearing
360T

"Block trades and EFPs have been preferred trading models, particularly for participants transitioning from OTC FX markets to FX futures. These bilateral models facilitate direct trading of FX futures between buy-side firms and their dealers. Block trades enable immediate risk transfer between parties, typically on an RFQ basis. And EFPs provide algo-facilitated access to OTC FX Spot markets to establish an FX futures position."

Tobias Rank
Head of FX Product Sales
Eurex

"For us, the execution model largely depends on overall market conditions and the size of the order. Smaller orders can often be routed through the order book in a highly automated manner. For larger orders, we may request quotes from the sell-side directly. And for big tickets and rolls, we may prefer tapping into OTC FX liquidity through EFPs."

Rico Milde
Head of FX Trading
Union Investment

"Both order book and off-screen liquidity are well supported in these products and in particular in the more 'niche' currency pairs we see an increased interest from clients in accessing block liquidity; Our ability to provide this liquidity through our depth of book has been very important for us to build additional liquidity and providing enhanced service to clients. We do welcome the recent initiatives from exchanges to streamline block registration processes as well as to reduce the costs of execution and clearing."

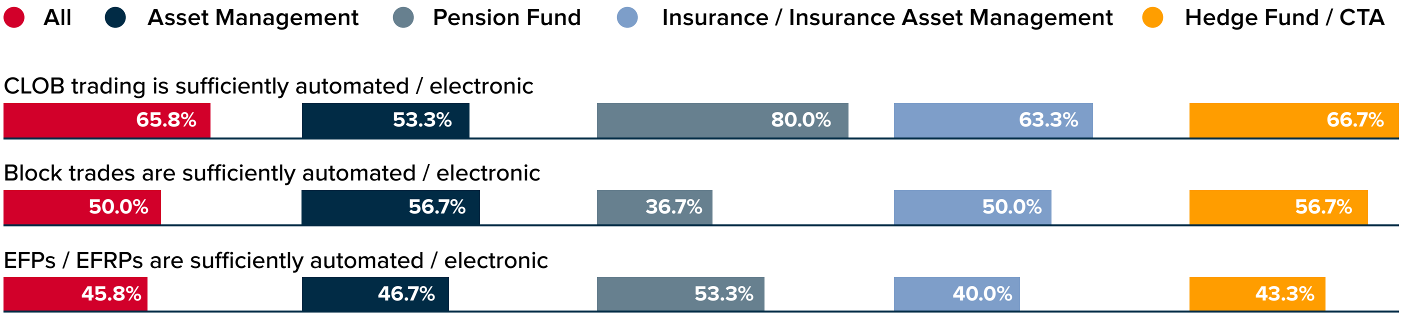
Antony Harden
Executive Director, Listed Derivatives Sales Trading (EMEA)
Goldman Sachs

"A fully established CLOB can, in theory, provide the most efficient market structure in a highly transparent fashion. But in times of information leakage and market impact considerations, more private trading models such as block trades and EFPs can be critical to access uncorrelated FX futures liquidity."

Chris Callander
Head of FX Trading – Europe
Societe Generale

Key Finding: While nearly two-thirds of respondents find CLOB trading sufficiently automated, our survey reveals a gap in automation for bilateral execution models. Traders have identified a lack of automation in block trades and EFPs within FX futures trading. This allows dealers, exchanges and FX platforms alike to provide automated offerings in this space.

Do you believe that FX futures markets are sufficiently automated?



Respondents were asked to select all answers that applied.

"Automation is a critical focus for the industry, and the finding that 50% consider block trades 'sufficiently automated' is both encouraging and suggests room for further improvement. While I'm impressed with this level of automation, there are areas where AI and automation can be leveraged to unlock even greater efficiency within block trades."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"While the CLOB is unavoidably electronic, the landscape for off-exchange trading is still moving away from being a voice market. These results reinforce that 360T clients do already have an advantage though, as we are the only major FX client platform that supports FX futures as part of its standard electronic FX workflows."

David Holcombe
Head of Product: FX Futures & FX Clearing
360T

"The FX futures market still has great potential for increased automation. This is especially true for bilateral trading models which can follow highly manual processes. Even existing workflows which appear to be automated on the surface might be running on manual controls behind the scenes."

Chris Callander
Head of FX Trading – Europe
Societe Generale

"While CLOB trading typically adheres to automated end-to-end processes, bilateral models like block trades and EFPs can still be driven by voice trading or single-dealer platforms, leading to increased operational efforts, especially when dealing with multiple counterparties."

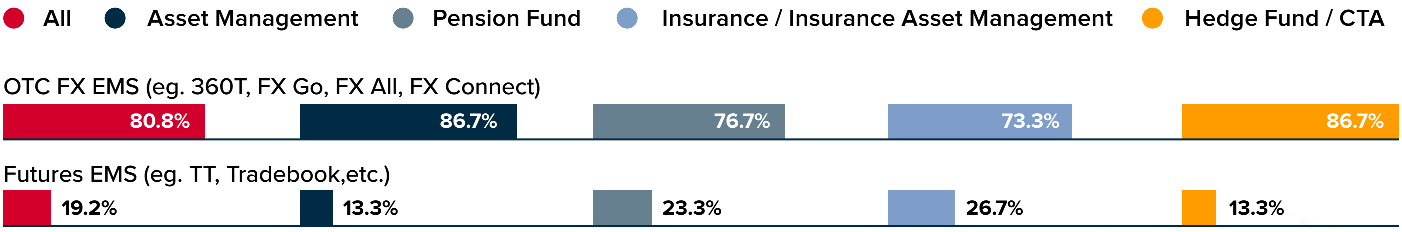
Francesca Dell'Era
Head of FIC Sales Central & Southern Europe
Eurex

"The CLOB is typically highly automated through direct market access and algo execution models. Blocks trades and EFPs, on the other hand, can still involve manual efforts on the trading layer. Some banks have started to provide automated execution solutions in this area, but more banks should follow suit to enable fully automated trading and clearing workflows to the buy-side."

Rico Milde
Head of FX Trading
Union Investment

Key Finding: Our survey highlights a clear preference for executing FX futures via OTC FX EMS such as 360T, Bloomberg FX GO / RFQe and FX Connect to name a view. This stands in stark contrast to those utilizing separate futures EMS for FX futures alongside other asset classes, a method only preferred by a fifth of respondents. This finding highlights the desire for a streamlined workflow and the convenience of managing all FX activity within a single platform.

Which EMS would you prefer to access FX futures?



"I agree with the survey findings that OTC FX EMS are a powerful tool for efficient FX access. For most execution needs, they're the clear choice. However, additional functionalities that must be fully automated for block trades might be necessary."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"Trading FX futures through single-dealer and multi-dealer FX platforms enables us to combine our entire FX business and to access different liquidity pools. A futures only EMS can be beneficial to access the CLOB, but might lack execution capabilities for trading outside the order book."

Rico Milde
Head of FX Trading
Union Investment

"This echoes what 360T clients have told us for some time. As the 360T EMS already has live FX futures capabilities, our clients can use the same 'OTC' workflows and the same order management system (OMS) integration, to interact with their panel of liquidity providers and enjoy the STP and workflow benefits of using our market leading EMS, regardless of whether the order is for OTC or listed FX."

David Holcombe
Head of Product: FX Futures & FX Clearing
360T

"As more market participants move towards FX futures from OTC FX markets, the integration of FX futures into existing OTC FX execution management systems is becoming increasingly important. This trend validates the hybrid strategy adopted by participants, who aim to merge OTC and listed FX markets. And naturally, these participants prefer to combine all their FX trading capabilities in one platform."

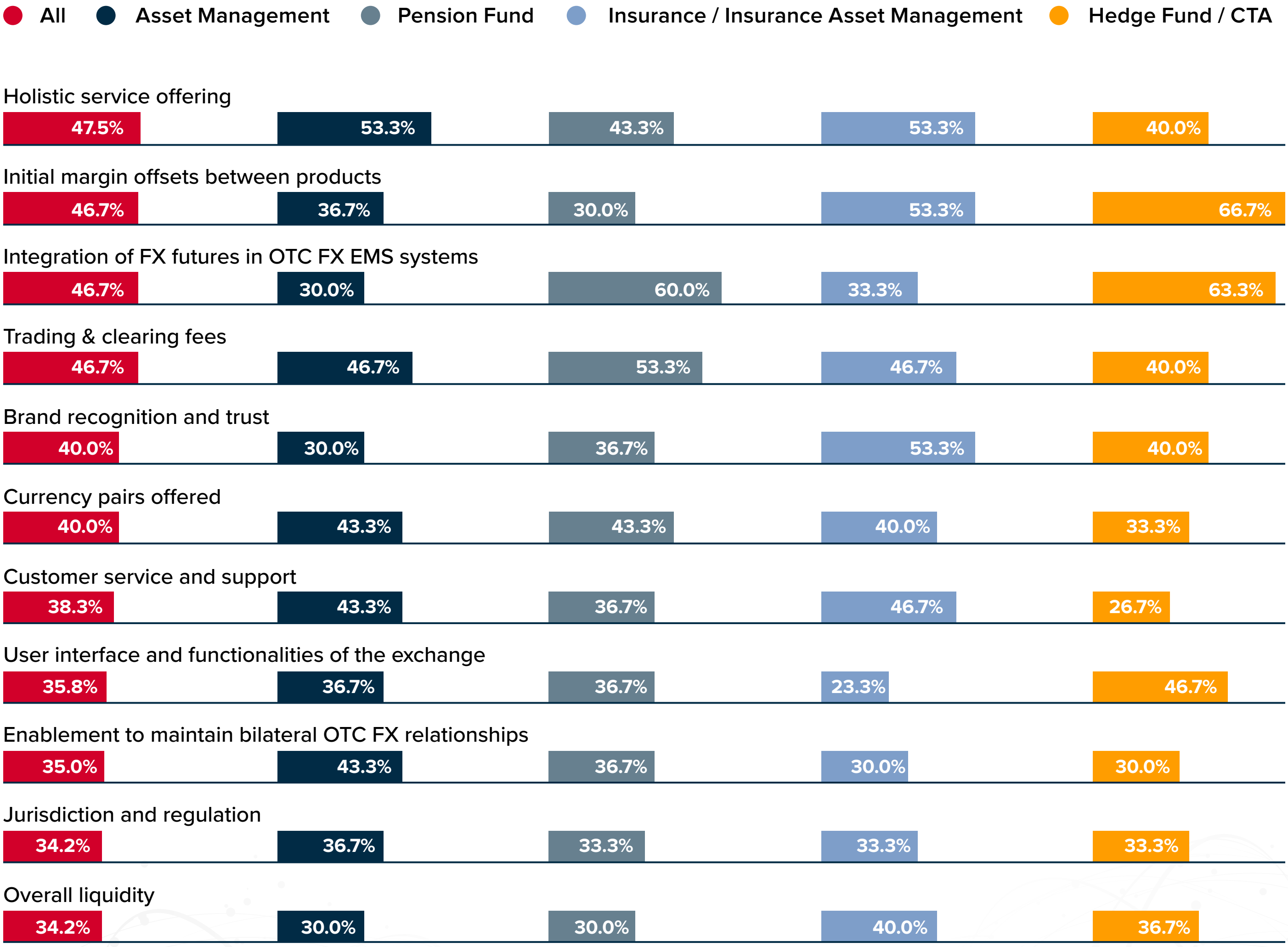
Isabelle Blanche
Head of FIC Sales Northern Europe
Eurex

"It's not surprising that our clients will choose a platform they are already familiar with, ideally our clients are looking for STP wherever possible and to minimize costs/operational headwinds."

Antony Harden
Executive Director, Listed Derivatives Sales Trading (EMEA)
Goldman Sachs

Key Finding: A significant number of respondents (47%) identified holistic service offerings as the most important consideration when it comes to choosing a derivatives exchange for FX futures. This aligns with the increasing demand among buy-side firms to seamlessly integrate FX futures into their existing OTC FX EMS. Competitive fees are also a key consideration, with some respondents highlighting the importance of initial margin offsets between products.

What is important to you when choosing your derivatives exchange for FX futures?



Respondents were asked to select all answers that applied.

"Interestingly, the survey suggests that liquidity, while important, isn't the absolute top priority. This could indicate a perception that liquidity for FX futures has improved significantly or that other factors like exchange functionality are now equally important. Overall, the findings suggest a more positive outlook on the FX futures market than some industry complaints suggest."

Imanol Urquizu
Head of Derivatives
Santander Asset Management

"The FX market is increasingly seeking comprehensive service solutions from exchanges. These solutions should consolidate liquidity pools and facilitate a seamless workflow between FX futures and their OTC FX EMS. Eurex and 360T have been pioneers in innovating the trading in FX futures. And Eurex is working with a range of platforms to make the listed FX market more efficient and inclusive."

Tobias Rank
Head of FX Product Sales
Eurex

"Beyond regulatory compliance, you can see that liquidity outside of the exchange order book and maintaining bilateral FX relationships are the key considerations to the choice of FX futures to use. With FX relationship trading a core part of our 360T DNA, we have already built futures into our OTC toolset so clients can do just this; working with their liquidity providers to secure each trade they need to do; whether that is OTC FX or FX futures."

David Holcombe
Head of Product: FX Futures & FX Clearing
360T

"This aligns with the increasing demand among buy-side firms to seamlessly integrate **FX futures** into their existing OTC FX EMS."

Conclusion:

The results of our buy-side survey reveal a significant shift in the adoption of FX futures among financial institutions. FX futures have transitioned from niche instruments to mainstream tools, with a majority of buy-side firms already incorporating them into their portfolio management strategies.

The challenges OTC FX markets face are driving buy-side firms to explore alternative solutions, and FX futures are emerging as a preferred choice. Looking ahead, all surveyed buy-side participants express their intention to further increase their usage of FX futures in the coming months.

Interestingly, this trend mirrors developments on the sell-side, where FX dealers are ramping up their execution services for listed FX derivatives. The desire to maintain bilateral trading relationships is a key driver behind this surge in FX futures' adoption—a convention that aligns with current practices in OTC FX markets.

Moreover, participants are keen on trading listed FX instruments directly within their OTC FX EMS, emphasizing the need for seamless integration between these two domains.

In summary, the buy-side landscape is witnessing a paradigm shift, with FX futures playing a pivotal role in portfolio diversification and risk management. As the market continues to evolve, buy-side firms are poised to leverage the benefits of these versatile instruments to navigate the complexities of global currency markets.

> "The challenges OTC FX markets face are driving buy-side firms to explore alternative solutions, and **FX futures** are emerging as a preferred choice."

Key Suggestions:

1. Buy-side

Financial buy-side firms are advised to assess the opportunities of FX futures to address the challenges presented by OTC FX markets. FX futures can be instrumental in mitigating the effects of UMR, and in managing increasing sell-side costs, transparency, and TCA. Buy-side firms may want to pay special attention to the possibilities of FX futures block trades and EFPs when it comes to maintaining their bilateral FX trading relationships with FX dealers.

2. FX dealers

FX dealers should anticipate and cater to the buy-side's growing demand for FX futures by enhancing their execution services. They may want to consider offering a spectrum of solutions ranging from high-touch to low-touch services in the FX futures space to cater for a range of participants. The combination of FX algo execution services and FX futures EFPs enables FX dealers to offer innovative and fully automated workflows to their clients.

3. OTC FX platforms

OTC FX platforms are facing increasing demand from the buy-side to access FX futures. They will therefore need to assess expanding their product suites to include FX futures, aligning with the buy-side firms' preference for trading these instruments alongside OTC FX in an integrated workflow. This integration will cater to the evolving needs of their clients and leverage the platforms' capabilities for automation and relationship-based trading.

4. Exchanges

Futures exchanges are advised to adapt their execution models to facilitate bilateral trading between buy-side and sell-side firms. The traditional focus on the CLOB might have to move towards bilateral block and EFP trading models to cater for the FX market specifics. Additionally, exchanges remain a core function to align interest and ensure seamless access between participants and platforms to guide the continuous transition in FX markets.

> "Several factors contribute to the growing adoption of **FX futures.** Enhanced market access, evolving market sentiment, and regulatory considerations are pivotal.

About Eurex:

Eurex is the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. As architects of trusted markets characterized by market liquidity, efficiency, and integrity, we provide our customers with innovative solutions to seamlessly manage risk.

With Eurex FX, we offer access to our cleared FX liquidity hub, where you can trade cleared FX instruments directly with OTC counterparts. And you can access liquidity streamed into the central limit order book. This hybrid approach offers you the best of both worlds: maintaining access to OTC liquidity while utilizing the benefits of central clearing.

With our product suite, you can eliminate counterparty credit risks and optimize portfolios from a capital and funding perspective.

We are on a mission to provide full electronic access to cleared FX liquidity, letting you seamlessly integrate FX futures into your existing OTC FX workflows.

For more information, please visit **eurex.com/fx** or contact us directly **fx@eurex.com.**

EUREX

About WBR Insights:

We use research-based content to drive conversations, share insights and deliver results. Connect with our audience of high-level decision-makers in Europe and Asia from industries including Retail & eCommerce, Supply Chain & Procurement, Finance, as well as many more. From whitepapers focused on your priorities, to benchmarking reports, infographics, and webinars, we can help you to inform and educate your readers and reach your marketing goals at the same time.

Contact us to find out how your business could benefit from:

- Year-round access to our network of decision-makers and industry-leaders
- In-depth research on current fast-moving issues and future trends
- Lead generation campaigns that fit your priorities
- Promoting your organization as an authority in your industry

To find out more contact:

Daniel Von Berg
Insights Sales Director
E: **Daniel.VonBurg@wbr.co.uk**

INSIGHTS
Worldwide Business Research