Britain has extended its lead in the global currency trading business in the two years since it voted to leave the European Union, in another sign London is likely to continue to be one of the world’s top two financial centres even after Brexit.

Leaving the European Union was supposed to deal a crippling blow to London’s position in global finance, prompting a mass exodus of jobs and business.

But with eight months to go, London has tightened rather than weakened its grip on foreign exchange trading, a Reuters analysis shows.

Foreign exchange - the largest and most interconnected of global markets, used by everyone from global airlines to money managers in transactions worth trillions of dollars a day - is the crowning jewel of London’s financial services industry. 

Reuters’ analysis, based on surveys released by central banks in the five biggest trading centres, shows foreign trading volumes in Britain had grown by 23 percent to a record daily average of $2.7 trillion in April compared to April 2016.

That was double the pace of its nearest rival, the United States, which was up 11 percent to $994 billion, mostly out of New York.

That means about two-fifths of all trades are handled in Britain, nearly all of them in London - a daily volume almost equivalent to the annual economic output of the United Kingdom.

The next three biggest markets are Singapore, which fell by 5 percent to $523 billion; Hong Kong, which grew 10 percent to $482 billion; and Japan, which increased by 2 percent to $415 billion.

London has dominated the foreign exchange market for nearly half a century.

Investment banks earned $4.2 billion in revenues from foreign exchange business globally in the first quarter of 2018, about 12.5 percent of all revenues in their global markets divisions, according to data from industry analytics firm Coalition.

While forex trading reaps relatively low margins, it brings in other business, allowing lenders to cross-sell other services such as interest-rate products, equity and bond issuance and advice on mergers and acquisitions, said former currency trader Keith Pilbeam, now a professor at the Cass Business School.

"It is all about getting people in," Pilbeam said. "Selling forex is the best introduction to a company because you are talking to the treasurers of these companies.”

Bankers and traders attribute an overall growth in trading to global political uncertainty, including around Brexit itself. They also cite the presidency of Donald Trump and the threat of trade wars involving the United States, China and the EU.

London’s time zone between the United States and Asia means it is well placed in times of global turbulence, they said.

Increased volumes help the biggest players because investors want to buy and sell in markets that have the capacity to absorb large deals without significantly affecting prices.

Finally, London’s advanced FX trading hardware and high-speed sub-Atlantic cables to New York make it costly and troublesome for forex operations to move, they said, especially given that banks have a tendency to want to group together.

"The luck of geography has helped because most of the big market moving news, whether in the U.S. or Europe, has occurred during London’s trading hours,” said Neil Jones, London-based head of hedge fund sales at Japan’s Mizuho Bank.

"You may have all the uncertainty around Brexit, but this is outweighed by London’s time zone, its language, and the advantages that come from having the biggest market.”

**BREXIT BATTLEGROUND**

The forex industry has emerged as a battleground between Britain and the EU in negotiations on what will replace current treaties and agreements after Brexit day on March 29, 2019.

Some EU leaders want to strip banks in Britain of the right to sell FX derivative products, which allow investors to hedge against swings in the price of currencies, to EU-based clients.

These products, the largest part of Britain’s currency market, are sold to customers around the world, not just the EU. Read more
ANALYSIS-Britain can't afford to close door to EU banks after Brexit

By Huw Jones, Reuters

Britain is expected to keep the door open for European Union banks and investors after Brexit to try to preserve London's global financial clout, irrespective of whether it gets a good trade deal from the bloc, bankers and industry officials say.

Nerves in the City of London financial district were rattled last month when the UK government proposed future financial services trade with the EU based on "reciprocal" arrangements. Bankers worried this meant that if the EU did not give Britain broad market access, London would impose tit-for-tat restrictions on EU banks or even tighten up treatment of all foreign lenders. "But the Treasury later told us it does not mean that. Reciprocity would make the City very nervous," a senior international banker in London said, speaking on condition of anonymity due to the sensitivity of the matter. The Treasury had no immediate comment on Tuesday. At stake is one of the most liberal and lucrative financial services trade regimes in the world. "The City has grown up by being everyone's playground and that needs to continue. The White Paper was not to be read as limiting market access coming into the UK," said a senior financial sector official, referring to the government's Brexit plan published last month. Britain allows non-EU "third country" banks to operate as a wholesale— but not retail - branch in London, meaning it doesn't require costly capital cushions that subsidiaries have. It also allows overseas entities to offer a wholesale service without a permanent UK base, subject to some conditions. Read more

The Canary Wharf financial district is reflected in the river Thames on a sunny morning in London, Britain, May 8. REUTERS/Hannah McKay

BREXIT IMPACT

Significant short-term market impact to no-deal Brexit -UK's Hunt

The short-term market impact will be significant if Britain leaves the European Union without a deal, British Foreign Secretary Jeremy Hunt said during a visit to Latvia on Wednesday. Asked about the possible market reaction to leaving without a deal, Hunt said at news conference: "Well, of course, there will be significant short-term impact, but I think in these situations the British economy would find a way to get through it."

Ratings agency Fitch sees growing risk of damaging no-deal Brexit

Ratings agency Fitch said on Thursday that it saw a growing risk of a bitter and economically damaging Brexit that could lead to a further downgrade of Britain's sovereign credit rating. "We no longer believe it is appropriate to identify a specific base case," Fitch said in an update on its views on how Brexit might affect Britain's economy and public finances.

UK households upbeat about their income, worried over Brexit

British households are the most upbeat about their finances since early 2015, buoyed by near-record employment, but the approach of Brexit and concerns about inflation are making them worry more about the future, a survey showed on Monday. IHS Markit said its monthly Household Finance Index rose in August to 45.9, up from 45.0 in July.

Business leaders' confidence in UK economy at lowest so far this year - survey

Business leaders' confidence in the British economy has fallen to its lowest point this year reflecting the impact of uncertainty over Britain's exit deal with the European Union, according to a survey published on Monday.
EU diplomats expect delay in Brexit deal beyond October target

By Gabriela Baczynska, Reuters

European Union leaders are likely to have to hold an emergency summit in November to consider any Brexit agreement struck with Britain, missing an informal deadline the previous month, diplomats in Brussels said.

Negotiations on the divorce deal resume after the summer break on Tuesday, but expectations that they can be wrapped up for a regular EU summit in October are fading. Some diplomats told Reuters the process could even slip into December, leaving little time for ratification of an agreement before Britain becomes the first country ever to leave the bloc in March 2019. “There is definitely going to be a real push for October and we’ll probably not be able to quite get there. So, while it has not formally been confirmed as yet, an extra summit in November looks most likely,” said a senior EU diplomat. Agreeing the terms of Brexit, as well as an outline of Britain’s future ties with the EU, is proving a tall order.

Delays have stirred talk that Britain could crash out of the EU with no agreements to replace nearly five decades of close relations.

London mayor Khan consults disaster planners over no-deal Brexit

London’s mayor Sadiq Khan said on Friday he had asked the organisation that deals with militant attacks and disasters in the British capital to assess the impact of a “no-deal” Brexit on access to medicines and food and on law and order. Khan said he would consult the London Resilience Forum, which plans responses to disasters such as the Grenfell Tower Fire, about the implications for Britain of crashing out of the European Union without a deal, saying that such a “catastrophic” outcome looked more likely than ever.

Prudential to consolidate non-UK European insurance in Dublin

Insurer Prudential plans to consolidate all non-British European insurance business in its Dublin subsidiary as part of preparations for Britain’s exit from the European Union, a letter to clients seen by Reuters showed. Policies from Malta, France, Germany and Ireland would all transfer to its Irish company.
cooperation in everything from food standards to space exploration and global diplomacy. Britain’s Brexit minister Dominic Raab and the EU negotiator Michel Barnier meet at 1230 GMT in Brussels. The Oct. 18-19 summit of all EU leaders has long been cast as the make-or-break moment for a Brexit deal, leaving enough time for the elaborate ratification process by EU member states and the European Parliament. But persistent disagreements, mostly over how to avoid border checks between the Irish Republic and the British province of Northern Ireland, have now cast that into doubt.

Gabriele Zimmer, a leftist German member of the European Parliament who deals with Brexit doubts, a deal can be reached by October. "It will be very hard," she said. "We didn't see any concrete proposal that would work on the Irish border issue. November is the last moment. December is already too late for us." The European Parliament goes into recess at the turn of the year and will then focus increasingly on May elections to the legislature.

Brussels and London want the negotiations to speed up but another diplomat also said people and businesses affected by Brexit would have to wait longer for any clarity on a deal. "Most probably not October. November is more likely," the diplomat said. "December is really the very, very last call. If there is still nothing at the turn of the year, it's hard to see businesses would not start implementing contingency plans."

The sources stressed political infighting in Britain as a risk factor, pointing to the annual conference of Prime Minister Theresa May's Conservative Party on Sept. 30-Oct. 3.

PRESSURE
Other milestones include a Sept. 19-20 informal gathering of EU leaders in Salzburg, Austria, where May is expected to make her case. The last regular summit this year is scheduled for Dec. 13-14.

Asked whether it was still the British government’s aim to reach a deal in October, a spokeswoman for May said: "That is certainly what we are working towards, yes."

London has fumed at a Brussels-proposed emergency plan under which Northern Ireland would effectively remain largely run by EU trade rules after Brexit, unless better ideas emerge.

One EU official offered cautious optimism that the gaps could be bridged by October: "It could still happen, maybe we will get there." Britain is not the only one under pressure.

The unity of the remaining 27 EU states in facing off with Britain has started to crack as the risk of a damaging "no-deal" Brexit rises. Poland's EU minister Konrad Szymaniski told his peers in July the bloc may soon be forced to choose between Ireland and having any deal with Britain. This marked a departure from the EU's mantra of standing by Ireland, where both sides fear a return to border checks could revive decades of violence.

But Warsaw has made clear that trade with Britain and mutual safeguards for citizens' rights - more than three million EU nationals live in Britain, roughly half of them Poles - may be more important.

On its side, Britain is due to release this week a set of papers on potential effects of a 'no-deal' Brexit.

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