

The Standard

UBS tops currency pile

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UBS, Europe's biggest bank, is eclipsing Citigroup, the largest US bank, in the US\$1.2 trillion (HK\$9.36 trillion) a day currency market by using computers to handle more customers and halving its trading staff.

UBS turned to less-risky operations such as private banking and currency trading after losing about US\$700 million in 1999 investing in Long-Term Capital Management, a United States hedge fund that failed. The bank also has curtailed conflicts with clients by reducing trades for its own account.

"UBS has imposed certain limits on proprietary trading, and that gives us great comfort," Christopher Sullivan, chief investment officer for the United Nations Federal Credit Union, said. "We needed someone with a lot of muscle, and one willing to put in time and effort even on accounts that are not so big such as ours."

Currency traders collect about 1/100th of a percentage point on the value of a transaction. For UBS, that means revenue of at least US\$1.4 million a day. The bank has more than tripled its market share since 2001 to 11.5 per cent, according to Euromoney magazine. Citigroup, the top currency trader in 22 of the past 24 years, has a 9.9 per cent share.

Zurich-based UBS has taken its battle with Citigroup to the US, where it has built the world's biggest trading floor the size of two football fields in Stamford, Connecticut. About 1,400 employees are on that floor, with the currency traders alongside stock and bond traders. The bank handles about 70 per cent of its trading through computers, compared with an industry average of about 40 per cent, according to Greenwich Associates, a Connecticut-based financial services and research firm. Citigroup handles about 35 per cent of its trades through computer.

The foreign exchange market, which includes spot trading, cash forwards and currency swaps, totaled US\$1.2 trillion a day in 2001, according to the Bank for International Settlements, and may be as big as US\$1.5 trillion today, traders said. The 1/100th of a percentage point fee is an industry average, according to David Gilmore, a partner at Foreign Exchange Analytics, and Richard Lyons, a professor at the University of California at Berkeley and the author of *The Microstructure Approach to Exchange Rates*.

UBS has shunned trading for its own account, cut the number of traders to fewer than 30 today from about 85 in 1999 and relies on multiple large electronic transactions for companies and other banks, Ellen Schubert, head of foreign exchange distribution in North America at UBS, said.

Computer technology such as UBS's Fx2B system has narrowed the differences between bids and offers, cutting profits for middlemen and forcing some out of business, Schubert said. Total trading is up 150 per cent from a year ago, she said. "Our whole business is based on having as many people cross the very tight bid-offer spread at any time and capturing a part of that," Schubert, 42, said. "The transparency of pricing that's available 24/7 has encouraged competition and more trading."



Securities firms have spent more than US\$100 million each trying to build computer systems that, like UBS's, provides standardized prices from a central source for clients around the world, Philip Panaro, president of New York-based IM2 Consulting, who says he advises half of the 10 biggest securities firms on computers and technology, said. "It requires a significant investment and the probability of success is low," Panaro said. "That's why a lot of firms have tried and failed and a lot have not even tried."

Citigroup pursues a different strategy than its Swiss rival, Richard Moore, 41, who jointly runs Citigroup's global interest-rate and currency group in London with Geoffrey Coley, said. The world's biggest financial institution aims to use currency trading to lure customers to other services such as research, prime brokerage, loans and access to emerging markets, Moore said.

About 5 per cent of Moore's staff trades for the bank's own account. Foreign exchange trading brought in about US\$390 million, accounting for about 22 per cent of Citigroup's US\$1.77 billion net revenue from trading in the second quarter, when Citigroup's total profit was about US\$50 million a day. Bloomberg