

# Scotia Capital

*Global Finance* discusses recent developments in the foreign exchange market with Barry Wainstein at Scotia Capital.

**GLOBAL FINANCE:** How is activity in the foreign exchange market evolving?

**BARRY WAINSTEIN:** Foreign exchange trading volumes continue to expand. The Bank for International Settlements' 2004 triennial survey of foreign exchange and derivatives market activity put average daily turnover at \$1.9 trillion. More recent estimates indicate turnover has surpassed \$3 trillion a day. The next triennial survey is expected to confirm this growth.

Hedge funds, commodity trading advisers (CTAs), and asset managers are driving growth. Total turnover for this group rose to 33% of the 2004 total from 28% in 2001. It is undoubtedly a lot larger today. This reflects the emergence of currency as a separate, tradeable asset class. Asset managers are looking for new ways to add value, with pension plans even dedicating risk budgets to active currency management.

**GF:** The hedge-fund industry has grown significantly over the past few years. What impact has this had on the foreign exchange market?

**WAINSTEIN:** In addition to boosting overall FX volume, the BIS noted that hedge funds tended to extend periods of "trend" in the market, as momentum funds acted to support directional moves. Hedge funds also exploited interest-rate differentials and pushed the val-

ues of high- and low-yielding currencies to extremes through carry trades, causing spikes in turnover in the Australian dollar, New Zealand dollar, Swiss franc and Japanese yen, among others.

Increased demand for liquidity by hedge funds and CTAs has led to the development of algorithmic trading platforms and helped foster autonomous liquidity pools offered by electronic communication networks, or ECNs. The growing demand from hedge funds requires foreign exchange dealers to find innovative ways to serve them, including foreign exchange prime brokerage, application program interfaces (APIs), and direct links to liquidity, higher-quality research and strategy, tighter spreads and efficient execution.

At Scotia Capital, we have a dedicated team with strong skills to service this important market segment. With specialists in Toronto, New York, Hong Kong and London, we offer 24-hour coverage. As an executing bank, we are able to transact with funds that have recognized prime-brokerage relationships.

**GF:** Cross-border M&A is having a significant impact on capital markets. How does it affect foreign exchange?

**WAINSTEIN:** Globalization continues to lead to consolidation worldwide. The Canadian market has been no exception. In 2006, more than 2,800 M&A deals worth a record \$230 billion were concluded. Foreign interest in Canada's resource sector is an ongoing part of this

Barry Wainstein, vice chairman and global head of foreign exchange and precious metals at Scotia Capital



flow. The financing of a cross-border M&A deal can have a material impact on the foreign exchange markets, usually benefiting the currency of the target country. To help manage the exposure, Scotia Capital structures solutions for companies using foreign exchange products. Options tend to be particularly attractive in these situations, given the uncertainty that often surrounds M&A deals.

**GF:** Technology has altered the landscape for both the buy side and the sell side. How do you ensure that the client relationship is enhanced through the use of technology?

**WAINSTEIN:** We listen to our clients first and then develop innovative technology to provide them with the features they want. This helps us strengthen and broaden the client relationship. Different clients demand different features. Research and post-trade functionality are important for corporate and institutional clients. We offer streaming requests for quotes to regional banks. For middle-market companies, our treasury workstations enable employees to execute deals, confirm and wire payments and access a historical database. While automation can improve the overall client experience, it is important not to lose sight of human contact. Our salespeople assist clients who require consultation services and our help desks provide ongoing technical support for our proprietary system.

**GF:** A growing market segment in Canada is the mid-sized company. What is different about this segment and how have you addressed this?

**WAINSTEIN:** Mid-market clients are often entrepreneurial and can be very sophisticated in their foreign exchange needs. Their financial managers require utmost efficiency, as they usually perform several roles in the organization and have limited resources. The banking relationship and the services provided are extremely important. Electronic foreign exchange trading has been

embraced by mid-market companies. At Scotia Capital, 73% of all mid-market transactions are done on ScotiaFX.com, our proprietary online trading system. Advanced post-trade functions such as mark to market, online confirmations, straight-through processing and exportable databases are valuable features to these clients. We also have a dedicated team of strategists who can help these clients develop risk-management policies and appropriate hedging strategies.

**GF:** How much of the movement in the Canadian dollar can be traced to commodities?

**WAINSTEIN:** Canada is ranked seventh in oil production, and is one of the world's largest producers of uranium, potash, nickel, zinc, copper and gold. Commodities play a key role in the Canadian economy and the value of the Canadian dollar. In fact, the strong correlation between commodity prices and the Canadian dollar has been confirmed over many years. Higher commodity prices attract long-term capital inflows into Canada through direct foreign investment (including M&A activity), creating strong demand for the Canadian dollar worldwide.

**GF:** What is your outlook for the US dollar over the next three months?

**WAINSTEIN:** We expect the dollar to remain weak in the next three months and would not be surprised to see it hit new multi-year lows against the euro, British pound and Canadian dollar. Relative interest-rate expectations have been—and continue to be—the primary driver of currency markets. While many central banks are currently in a rate-tightening mode, the next move in the US federal funds rate is likely to be lower and this has kept pressure on the US dollar. Continued diversification of foreign currency reserves by central banks is another factor that is negatively impacting the US dollar.

**GF:** What differentiates Scotia Capital

from the other banks?

**WAINSTEIN:** Scotiabank is the most international of the Canadian banks and serves 12 million customers in 50 countries through 2,200 branches and offices. In 2005, Scotia Capital established an integrated NAFTA-wide platform optimizing the delivery of our capabilities to clients in Canada, the US and Mexico. We offer a NAFTA platform that no major competitor can match. Our unique business model, which includes centralized, common processes, products and services under the Scotia Capital brand, allows us to satisfy our clients' needs regardless of location.

One of the many ways we differentiate our foreign exchange product is through our research. Embedded in our trading team, our currency strategists have direct insight into market flows. We have execution capabilities in more than 60 currencies, including all major and emerging-market currencies for spot, forwards, swaps, options, and non-deliverable forwards. Our currency research group produces well-recognized fundamental and strategic publications. Not only do we offer daily and weekly updates and trade ideas, but we also host bi-weekly conference calls.

**GF:** What is the most important driver of your business?

**WAINSTEIN:** Our clients! At Scotia Capital we are committed to providing superior service to our clients. We have invested in technology to streamline the entire process from information flow, execution and post-trade functionality. But at the end of the day, the relationship we have with our clients is what counts. We listen to them, get to know their business, understand their requirements, and then adapt to meet their needs. This is an ever-evolving relationship and is a critical aspect of our business. ■

**CONTACT:** Scotia Capital  
Tel: +1 416 866 7009  
[www.scotiacapital.com](http://www.scotiacapital.com)