

Media Release

Declining Engagement in FX Options Among Asian Businesses in Favour of Forwards

(24 March 2021 – Asia) Small and mid-sized businesses in Asia are turning away from FX Option as uncertainty from the coronavirus pandemic fuels volatility in major currency pairs, latest research from East & Partners Asia reveals.

Just one in three (33 percent) businesses in the region are using FX Options to mitigate currency risk, slipping 11 percent from a year ago, while Forward FX adoption reaches a record high of 49 percent.

The bi-annual research tracks Spot FX engagement and uptake of FX hedging solutions from 1,865 businesses across four major markets in Asia including Hong Kong, Malaysia, the Philippines and Singapore. It is based on direct interviews with key business decision makers including business owners, chief financial officers (CFOs), finance managers and corporate treasurers.

FX Options, an inherently complex and relatively expensive means of hedging FX risk compared with vanilla Forwards, has been gaining traction in the past decade, thanks in part to improved understanding of the product among businesses and digitisation efforts which increased transparency of the Option flow.

But that started to change in early 2020 when the covid outbreak expanded in the region and beyond. Fewer sub-US\$100 million turnover businesses used the FX instrument, giving up some gains as penetration rates fell to late-2017 level.

"This seems counterintuitive considering FX Options offer much-needed flexibility, especially at a time when cash flows are harder to predict. One possible explanation for this is that, as a result of surging FX volatility, Option premiums have increased, making hedging rates less attractive. Additionally, the steep unexpected decline in cross-border trade might not warrant the use of such complex hedging tools," commented East & Partners Asia Business Head Sangiita Yoong.

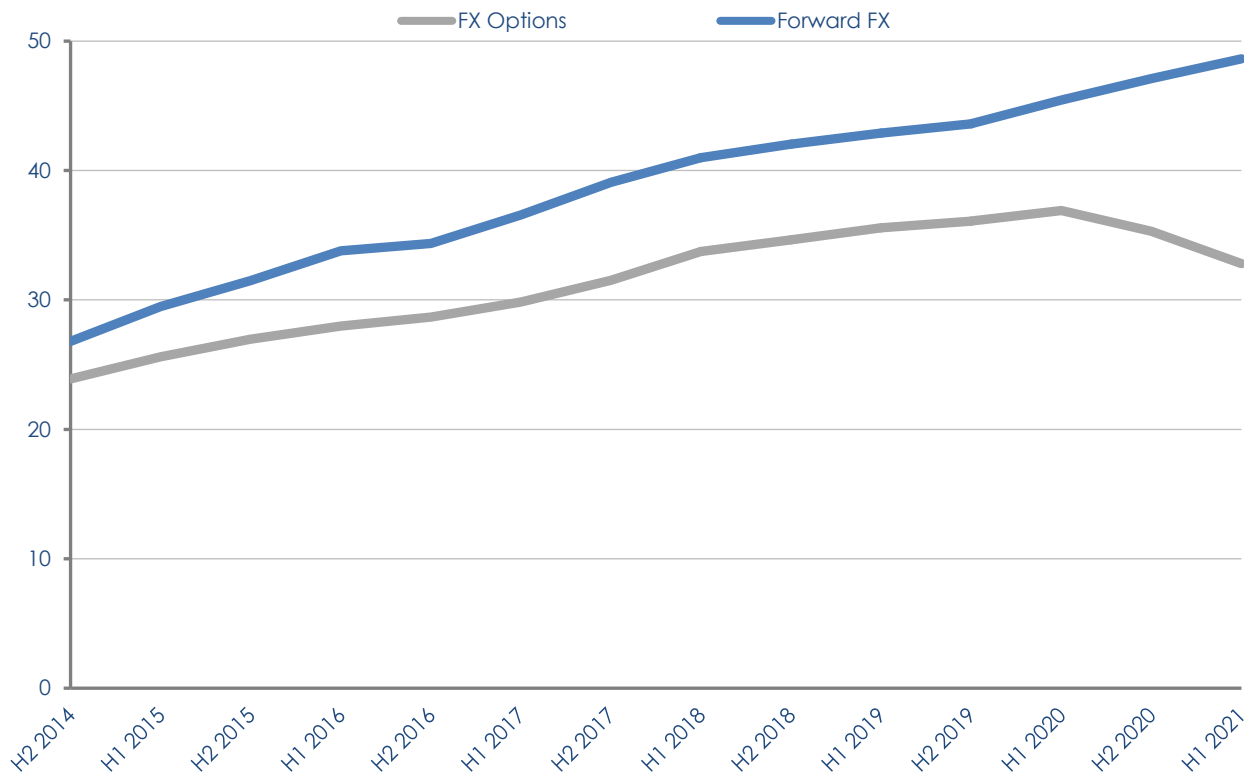
Market-wise, FX Option adoption rates in Singapore have dipped below the 50 percent mark to 47 percent – a level last seen in H1 2018, while less than two in five businesses in Hong Kong (39 percent), Malaysia (23 percent) and Philippines (20 percent) use the risk management solution.

According to the report, all major FX Option providers saw their customer satisfaction rates decline by 3 points to 8 points each over the past six months. This suggests that businesses are becoming increasingly unhappy about the product and service offered. At the same time, there is also a wave of consolidation happening within this capital-intensive market where larger providers are getting bigger as engagement declines.

Are we starting to see a reversal of FX Option adoption? Or will more businesses incorporate FX Options in their hedging programmes as international trade recovers? More importantly, how can FX Option providers encourage growth in volume and raise the bar in customer experience? Or, do risk providers focus on Forwards as the increasingly preferred risk tool for Asia's SMEs?

FX Options and Forward FX Penetration Rates in Asia

% of Institutions



Source: East and Partners' Asian Business Foreign Exchange Markets Program

About the research

This research is from the sixteenth round of East and Partners Asian Business Foreign Exchange Markets Program, a six-monthly research program. In total 1,865 enterprises across Hong Kong, Malaysia, the Philippines and Singapore from the Micro, SME and Lower Corporate segments were interviewed directly in February 2021. Interviews were conducted with the Business Owner, CFO, Finance Manager or Corporate Treasurer using a structured questionnaire.

The Micro segment comprises businesses with annual turnover of US\$1–5 million, while the turnover band for SME is US\$5–20 million and Lower Corporate US\$20–100million. Sector distribution in each country market reflects a natural sample of the population distribution.

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