Introducing the Trading Room: activities, instruments and interesting facts

Numerous internal services contribute to the smooth running of the Bank: one of these is the Trading Room. In order to get a better understanding of what's hidden behind its doors, we asked Simone Stoppani to answer a few questions.

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You work in the "Trading Room": why is it called that and what areas do you cover there?

The Trading Room deals with the brokerage of all listed instruments and over-the-counter securities, including forex, on behalf of our clients. Unlike the former, the latter aren't listed on a physical stock exchange, but through financial intermediaries – typically banking institutions to be precise. The department also carries out foreign exchange activities, precious metal transactions and BPS (SUISSE) cash management, or Treasury.

Can you explain what forex market means? What are its main features and how does it work?

The forex (**for**eign **ex**change) market is the foreign currencies market – the most liquid in the world – and trades more than 6,000 billion dollars on a daily basis. It is an over-the-counter market: this means that trading is not conducted through a physical stock exchange, but a global network of financial intermediaries, some of which (mainly banks) play a market maker role, quoting and trading the different currencies 24 hours a day. The main feature of the forex market is that it is open 24 hours a day, 5 days a week. Trading begins early on Monday morning in New Zealand, when it's night time in Europe, and ends late on Friday afternoon when the US stock exchanges close, and it's already late evening in Switzerland. During that period of time, trading is continuous.

What types of currencies are there?

Each country has its own currency. The main base currencies with the highest trading rates are: the US dollar (USD), which is also the reserve currency par excellence of the world central banks – around 50% of global reserves is denominated in this currency. This is followed by the euro (EUR), the Japanese yen (JPY), the Chinese yuan (CNY) and the UK pound sterling (GBP). From 1880 to 1914, following the supremacy of the British Empire over commercial trading throughout the world, the pound sterling became the main trading currency used in international commerce. From the Second World War onwards, it was taken over by the US dollar. The sixth main currency in order of importance is the Swiss franc (CHF), traditionally considered a safe-haven asset because of the excellent reputation of our financial centre at global level, the efficiency in terms of bureaucracy and transparency, the strong economy, the creditworthiness (AAA rating) and the low level of indebtedness.
Another type of currency is commodity currencies, that is, the currencies of countries that traditionally have a very close link with the raw materials market. This category includes the New Zealand dollar (NZD), the Australian dollar (AUD) and the Canadian dollar (CAD). There is also the exotic currencies category – these are associated with small economies but are gradually gaining in importance: the South African rand (ZAR), Mexican peso (MXN), Turkish lira (TRY) and Hong Kong dollar (HKD). Another group of currencies is the so-called “Nordic bloc”, which includes the Swedish krona (SEK) and Norwegian krone (NOK).

Can you list the factors that influence the rate of a currency?

They are the same ones that reflect a country's state of health: the official interest rate (benchmark) and the economic climate. The latter, in turn, is established by a set of key economic indicators, specifically:

- GDP (gross domestic product) representing the aggregate of goods and services produced in a specific country;
- public debt, whose level is inversely proportionate to a country's state of health;
- balance of payments, at state level, consisting of the balance between incomings – in other words, the monetary flows entering a country from exports, and outgoings – the monetary flows exiting the country as a result of imports. Simply put, it corresponds to the balance between the “buyers” and “sellers” of a specific currency;
- inflation rate;
- labour market, whose unemployment rate is an indicator.

In theory, this economic data influences the attractiveness of a nation, of its currency, determining the fluctuations of currencies on the markets.

Which instruments are used in the forex market?

The simplest and most immediate instrument is the spot exchange – a transaction where two people exchange currencies instantaneously. There are also forward exchanges – exchange transactions with a deferred deadline, generally of one week to twelve months, for which the rate applied is defined – and other derivative instruments such as (OTC) exchange options and futures contracts. OTC trading gives the right, but not the obligation, to buy or sell a currency at a specific price (strike) – by a specific deadline.

Futures, however, are standardised (listed) contracts and provide for the purchase/sale of a specific quantity of currency by a set deadline. Except for spot exchanges, the other instruments indicated are defined as “forward” since, as described, they are executed after the contract is entered into.

It is possible to carry out transactions in currencies only for amounts actually held?

No. One of the main features of the forex market is that “leverage” buying is possible. In fact, financial intermediaries, known as brokers, offer the possibility of operating on the exchange market using a certain degree of financial leverage; that is, enabling trading for amounts above the amount actually held. However, to guarantee this “freedom”, they require a capital margin that is frozen. The proportion of “collateral” required to guarantee the transaction is set by the brokers themselves, each of whom defines their own leverage level. This opportunity to optimise the return on trading is also one of the reasons why the forex market has become so popular over the years.

In addition to foreign exchange trading, you are also responsible for Treasury activities: can you tell us the objectives and tasks of the treasurer?

The objective of the Treasury is to optimise the Bank's monetary flows, managing incoming and outgoing transfers and cash holdings at other banking institutions, for example. It also aims to ensure a sufficient liquidity in accordance with internal requirements and legal regulations.

In order for the Bank to be able to carry out the transactions requested by clients (e.g., withdrawals and currency exchanges) and issue loans, the treasurer must manage the Bank's different monetary flows to ensure the necessary liquidity. This refinancing activity takes place both via the management of the Bank’s cash holdings and deposits from its private and institutional clients as well as other institutes.

Which instruments are available to the Treasury to assist it with its tasks?

Many instruments are available, and their use depends on the character of a banking institution's Treasury. Among those of liquidity gathering include term deposits and cash bonds. The former are client deposits with the bank with a fixed term – typically one to twelve months. This means that, for the period of time agreed, the clients will be unable to use the amount deposited. In view of these circumstances, the bank guarantees a higher return. The cash bond, on the other hand, is a similar instrument, but with a longer term: from twelve months to ten years. In both cases, the Treasury quantifies the interest rate applied so that both bank and clients can benefit.

And then there is the so-called currency swap: the bank's cash management instrument that provides for a simultaneous spot or immediate exchange and a forward, i.e., deferred, exchange in the opposite direction. The treasurer uses this to optimise the bank’s cash holdings in foreign currencies on the one hand and to refinance the bank on the other.

To conclude, can you shed some light on your career path that led you to your current position?

After studying Economics at university, I honed my knowledge with more technical vocational courses and, naturally, with experience in the field, beginning in 1998 with Banca Popolare di Sondrio, during which time I've been lucky enough to work in a variety of departments.

In any case, in order to be able to work either as a treasurer or a foreign currency trader (and in a trading room), you must have a basic university education, or at least vocational technical training, as well as sound hands-on experience.

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