Business Review
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STOCK EXCHANGE

Forex trading increased by 300 percent during COVID-19

Aurel Constantin 06/08/2020 | 10:25

The coronavirus pandemic threw the world into a tailspin. More than six months after COVID-19 came into our lives, the international community is still dealing with substantial uncertainty. Hundreds of millions have lost their income, and the future remains undecided for people and businesses around the world.

In this context, the current boom in FX trading seems even more remarkable. As those familiar with what is forex trading surely know, the past few months saw massive growth across a variety of trading platforms and commodities. For example, trading broker IronFX reported a month-to-month growth of 25-50 percent in forex accounts. These percentages represent 220,000 new client accounts over the period of March through June. According to their report, trading volumes also rose sharply between March and June, increasing by approximately 300 percent over those three months.

The growth rates were more pronounced in developing countries, with traders' accounts from Africa, Eastern Europe, and Southeast Asia making up 60 percent of the new accounts. Trading markets vary, as some traders focus solely on safe-haven commodities and currencies, while others try to leverage opportunities, such as the fluctuating demand for crude oil.

The steep increases in trading activity and account numbers placed substantial pressure on forex brokers. Employees working remotely and liquidity demands mean that smaller forex brokers may not be a safe choice for traders. As worries regarding withdrawal grow, traders naturally move towards large, reliable brokers such as IronFX.

Extensive growth such as this is extremely rare for the forex industry. Over the past decade, average daily forex trading volume increased by no more than 40 percent. Of course, the staggering change is a direct result of this year's unusual financial and economic climate, leading to a series of high-impact factors.

"Market volatility is directly affecting the steep rise we're seeing," says Andreas Efstathiou, senior analyst at IronFX. "The profit potential it signifies is undoubtedly a major pull factor for traders who wish to leverage on price swings. However, other sociological trends may have contributed, as well. Working from home has given traders more time to focus on trading. Also, in the shadow of a looming financial crisis, people are actively looking for new income channels. They have time to learn more about trading and may feel like global events present a unique opportunity to make a profit. Naturally, this means a higher interest in the market and more trading activity. Forex trading has also been done online for many years, making it one of the most natural courses of action for new and dormant traders looking for profitable avenues."

Temporary spike or a long-term trend?
The circumstances leading up to this rise have been unprecedented. The amount of data and information available is still small, and predictions will be nothing but educated guesses. However, with further outbreak 'waves' expected in the upcoming months and years, we can assume many of the underlying causes will remain in effect or re-emerge as soon as COVID-19 cases increase. Lockdowns and social distancing mean market volatility will remain high, and remote work will keep traders focused on forex markets.

CMC Markets upbeat after Covid-19 boosts trading

Sean Farrell, Sharecast News

CMC Markets said it was confident about its outlook after increased trading caused by the Covid-19 crisis helped push up annual income.
n/a
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The online trading platform reported gross client income of about £241m for the year to the end of March – up from £216m a year earlier.

Contracts for difference net trading revenue rose to about £214m from £110.2m. Stockbroking revenue more than doubled to about £32m from £15.5m, boosted by a deal to provide services for ANZ Bank. Annual operating costs rose to £136m from £120.4m.

CMC said its business performed well during the year and that it gained from increased market activity in the final quarter, when financial markets became highly volatile in response to the rapidly escalating Covid-19 crisis. CMC said extra revenue more than made up for spread betting limits imposed by the European Union.

Chief Executive Peter Cruddas said: "Looking forward, there are many new uncertainties, including how governments, regulators and exchanges will react. Notwithstanding the uncertainty we remain confident in the outlook for 2021 as we progress with our numerous strategic growth initiatives.

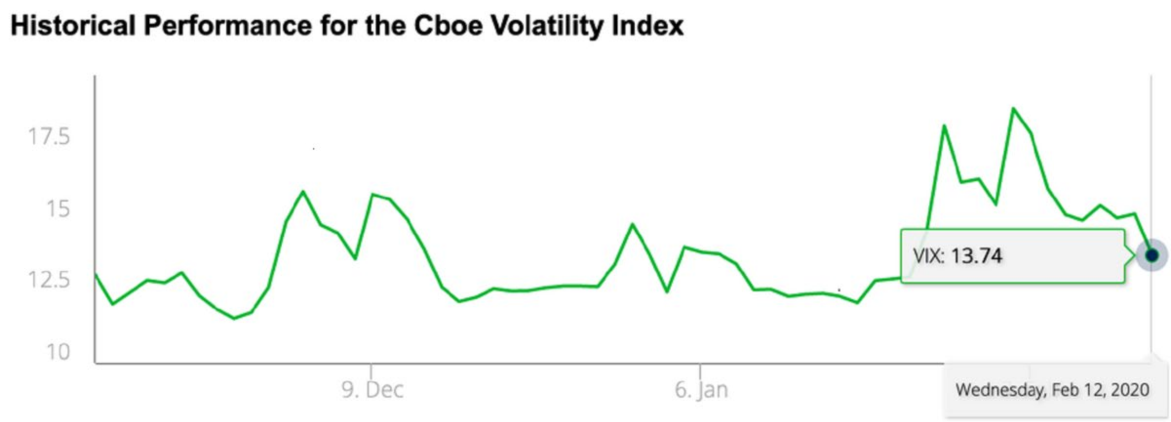
"We're not reliant on a sustained period of high volatility in markets, but our well invested platform, technical expertise and diversified offering supports us delivering sustainable results not just now but also in years to come."

Analysts on average expect annual net operating income of £193.2m and pretax profit of £46.8m for the year to the end of March, CMC said.

Finextra

Increased Volatility in Financial Markets as COVID-19 Surges

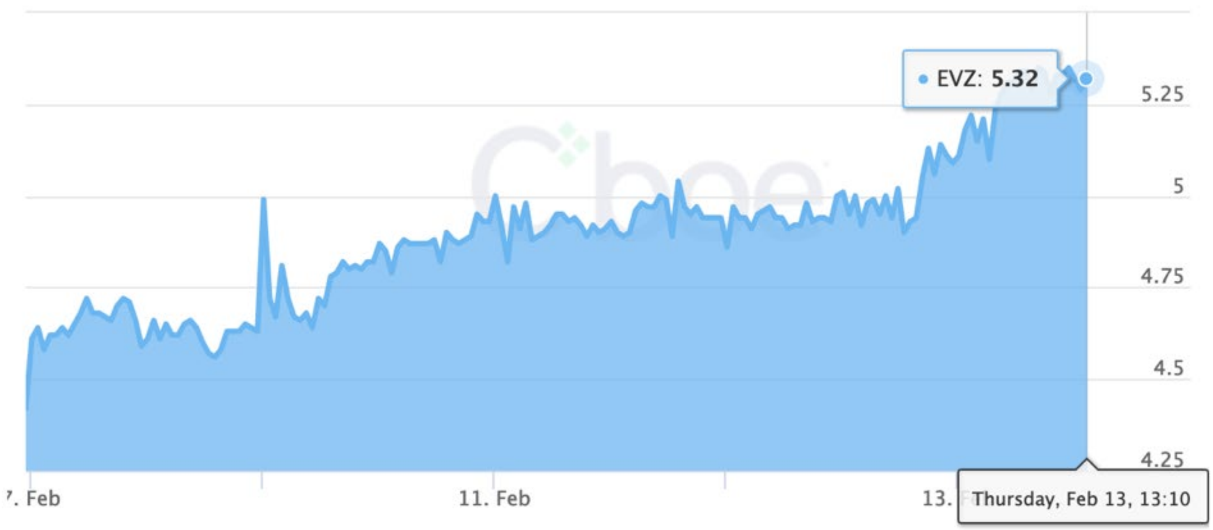
18 February 2020



Source: CBOE VIX Options

Stock markets, futures markets, and general business sentiment have taken a pounding since the devastating coronavirus outbreak, more recently renamed COVID-19. After a semi-rally mid-week, stock markets have retraced and surrendered gains on the back of an avalanche of negative data vis-a-vis the latest virus from Hubei providence in China. The Dow Jones Industrial Average, the NASDAQ Composite Index, the S&P 500 index, and many futures markets retreated across multiple trading sessions.

While the number of new cases continues to grow at an alarming rate, the number of infections has already exceeded 60,000+, with the death toll in excess of 1,350+ people. Traders and investors wasted no time dumping stocks en masse, and short-selling options as they fear the worst. Among the biggest beneficiaries of this global uncertainty are forex markets. Foreign exchange volumes now exceed $5.5 trillion per day, with heightened trading activity in recent weeks as speculators jockey for position.

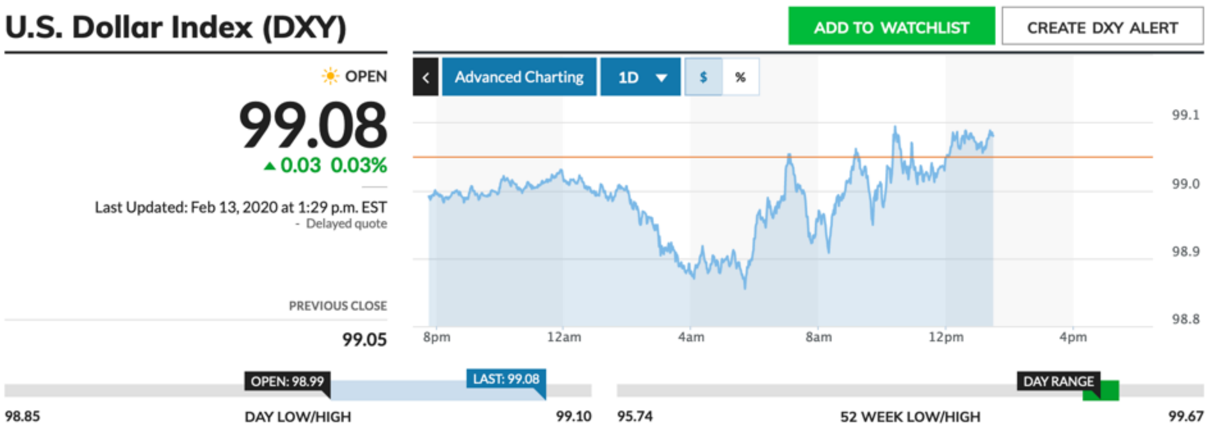


Source: VIX Volatility on Currencies CBOE

The VIX (volatility index) is a powerful barometer of investor sentiment. The higher the figure, the greater the volatility. In recent weeks, the VIX number has risen sharply, indicating increased fears in the financial markets which typically bodes well for safe-even commodities like gold and currencies like the JPY. There is significant volatility in currency pairs, as indicated by the CBOE index.

For example, the JPY/USD pair is slightly up for the week ending February 14, 2020, in line with expectations. The latest infection numbers sent European markets into the red, reigniting fears of the dangers of this pandemic. Gold bullion is one of the few beneficiaries of increased global economic malaise. Gold futures climbed on the news, rising several dollars for delivery in April. At the time of writing, gold was selling at $1574 per ounce as general risk aversion to stocks found a refuge in the world's premier precious metal.

Which Currency Pairs Are Up & Which Currency Pairs Are Down for February?



Source: [MarketWatch US Dollar Index (DXY)]()

The US Dollar Index serves as an important measure of the relative strength or weakness of the USD. Currently, the US Dollar Index (DXY) is at 99.09 (February 13, 2020). The 1-month performance of the US dollar index is 1.81% +, indicating that the USD has appreciated relative to other currencies for the year. In times of global economic uncertainty, the US dollar still has ranking status over other currencies. By deduction, forex traders have been buying USD and selling other currencies. This is evident in the year-to-date appreciation for the greenback (+2.80%).

Source: JPY/USD (Week Ending February 14, 2020)

- The coronavirus outbreak has had a devastating impact on the Thailand economy which is heavily reliant on China. The Thai baht was the strongest performing currency in Asia in 2019, and is now the worst performing currency in the region. It depreciated by over 4% to the USD in 2020, relinquishing 50% of its gains against the USD in 2019.

- The EUR/USD currency pair is forecast to move lower on expectations that the European Central Bank will slash interest rates. If this occurs, demand for EUR will decline and investors will actively seek out USD and GBP. Credit Suisse analysts have cautioned about the devastating impact that COVID-19 has had on global economic activity. That the EUR/USD rate has fallen below 1.09 (a key support level) is alarming. If the ECB follows through on expectations and slashes interest rates by 10 basis points, this will have an instant effect on currency markets.

- If equities markets don't react to the coronavirus outbreak as expected, they will benefit and the JPY will suffer. However, if equities markets sell off then a shift towards safe-haven currencies will take place and the JPY will benefit. Slight gains have been realised heading into February, but retracements have resulted in all gains being forfeited. Currently, the 50-Day MA (0.915) is beneath the 200-Day MA (0.922).

The current market volatility is a consequence of geopolitical concerns. Any positive news will stabilize equities markets, sour gold, and have varying effects on currencies trading. For now, the strength appears to be with the majors, as fears run rampant with minor and exotic currencies.