SGX eyes global partnerships, growth beyond IPOs

Ground presence in key markets is also beginning to pay out

By : ANGELA TAN

DESPITE the ever-suspicious anti-trust scrutiny on potential suitors among global stock exchanges, Singapore Exchange (SGX) remains steadfast in its pursuit of partnerships.

Loh Boon Chye, chief executive officer of South-east Asia's largest stock and derivatives market, is "very excited about partnerships" - even though critics say that its slew of global Memorandums of Understanding (MOUs) have yet to bear fruit.

"MOUs are the first steps to some of these concrete partnerships; and frankly, partnerships take time to work out. You've got to find a mutually win-win ability to serve the customers in a market place. If not, it will not be sustainable," Mr Loh told The Business Times (BT) in an interview last Friday.

"We plan to double our international sales team in three years' time. By then, we expect 40 per cent of our front office to be based overseas."

SGX, which generated a net profit of S$340 million for the fiscal year ended June 30, 2017, operates offices in Beijing, Hong Kong, London, Mumbai, Shanghai, Tokyo and Chicago, which it opened last October.

Like many exchanges, SGX - with close to S$750 million in cash and cash equivalents at the end of 2017 - has been scouring the globe for these win-win partnerships and stake acquisitions that will enhance its product offerings. The Singapore bourse is reportedly looking at a controlling stake in Israel's Tel Aviv Stock Exchange.

Mr Loh is also not ruling out the potential opportunity to work again with Australian Stock Exchange (ASX) - the exchange that his predecessor, Magnus Bocker, had tried to buy out at A$8.35 billion in 2011. The deal, which would have created the world's fifth largest exchange, was scuttled by the Australian government.

Mr Loh, a former banker with Bank of America-Merrill Lynch, said that MOUs such as the one that SGX signed a week ago with New Zealand Exchange to promote derivatives products as well as dual and secondary listings, among other things, will take time. This is the same for its tie-up with Bursa Malaysia (BM) to set up a stock market trading link by the end of the year as well as its East-West partnership with Nasdaq, the world's second largest exchange after the New York Stock Exchange, to help companies raise capital.

"They are concrete things we are working on to execute and serve customers. We also expanded into Chicago less than a year. Some of the efforts have come through in our overnight derivatives volumes. There is almost a doubling in our T+1 sessions, which have been very encouraging. That is why we are expanding our presence further outside Singapore."

Ground presence in key markets is beginning to pay out, he stressed. More companies in Europe and US, notably those involving the real estate investment trust (Reit) and information technology sectors, are showing interest to list here.

"We had 25 listings in 2017, and we are expecting an upward trend in the number of listings for 2018," Mr Loh said. "From the US, there are some in the pipeline. We are looking at the whole platform of fund raising from pre-initial public offer (IPO) to eventually IPO."

In fact, SGX may see its first listing from a Bangladesh company when electricity producer Summit Power International heads here by April.

But SGX is more than just an equity or an IPO market, Mr Loh said. As Asia's most international, multi-asset exchange, SGX has a rapidly growing derivatives market as well as a market data and index business. Today, securities generate about 50 per cent of SGX's total revenues, while derivatives is fast catching up at 40 per cent.

"At the end of the day, to be a vibrant financial centre, you need to be multi-asset class, with multi-investor base . . . and grow beyond our shores. International outreach, client acquisition and international presence are very, very important."

Since the launch of its high-performance derivatives trading platform, SGX Titan, in November 2016, SGX has seen increasing market participation in the T+1 session - SGX's second trading session for its derivatives market, which covers the Asian night as well as European and US day hours.

"That has grown quite rapidly in the last 12-18 months. So clearly, more international players are trading our markets."

Constant efforts are made to innovate and deliver new products for its ecosytem of clients which include sovereign wealth funds from different countries including South Korea, China and Norway, as well as a growing pool of wealth management firms.

While it has started off in the derivatives space with equities index futures, SGX has since introduced a series of Asian emerging markets index futures based on net total return (NTR) indices calculated by MSCI Inc. Designed for greater capital efficiency, the indices look at not just price movements but dividend yields too. Since the launch in June 2017, SGX now has more than 20 per cent market share.

Similarly in foreign exchange, where there was no active FX futures market on the exchange three years ago, SGX has a leading share in Asian FX futures today. It is also the pre-eminent exchange on FX futures for Asian currencies, and the leading debt listing and trading platform for Asian corporate bonds in G-3 currencies - US dollar, euro and yen - the three big currencies in this part of the world for raising debt.

And more products are in the pipeline. Mr Loh elaborated: "We approach it from the standpoint of access into Asia. So, approach Asia, start off at country level. Within the country, look at what are the relevant asset classes. That's the financial development in each country. What is available?"

He said that the asset classes are usually shares or equity, but also debt with fixed income which can be traded on the exchange. "Then, you've got to think of the currency because your returns could be magnified or nullified by a currency movement; and then related to that, even commodities."

In such an approach, Mr Loh said, SGX could cover at least 90 per cent of the Asian gross domestic product. "Then we look at the different asset classes," he said.