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# Business

WEDNESDAY, SEPTEMBER 11, 2019

12 Crude prices roiled by global trade and economic worries


13 In electrification race, VW bets billions at Frankfurt car show

14 EQUATE Group inaugurates its new MEGlobal Oyster Creek site in Texas



ABU DHABI: Saudi state oil company Aramco's CEO Amin Nasser speaks during the 24th World Energy Congress (WEC) in the UAE capital Abu Dhabi yesterday. Saudi energy giant Aramco is ready for a two-stage IPO but the timing is up to the government, Nasser said, flagging a possible foreign listing as part of the offering. — AFP

# Aramco says ready for two-stage IPO

## Saudi giant eyes international listing 'very soon,' hopes to raise up to $100bn

**ABU DHABI:** Saudi energy giant Aramco is ready for a two-stage stock market debut including an international listing "very soon" but the timing is up to the government, its CEO said yesterday. Aramco has said it plans to float around five percent of the state-owned company in 2020 or 2021 in what could potentially be the world's biggest stock sale. The mammoth Initial Public Offering (IPO) forms the cornerstone of a reform program envisaged by Crown Prince Mohammed bin Salman to wean the Saudi economy off its reliance on oil.

It aims to raise up to $100 billion based on a $2 trillion valuation of the company, but investors have debated whether Aramco is worth that much and there have been repeated delays in the launch originally envisaged for 2018. "We have always said is that Aramco is ready for listing whenever the shareholders make a decision to list," Aramco CEO Amin Nasser told reporters on the sidelines of the World Energy Congress.

"And as you hear from His Royal Highness Prince Abdulaziz yesterday, it is going to be very soon. So we are ready-that is the bottom line," he said, referring to the newly appointed energy minister. With the low oil price believed to be a factor weighing on their decision-making, he added however that the actual date would be a "government decision".

The government has not given any explanation for the delays, but apart from holding out for the big-ticket valuation they are also said to be concerned the IPO could bring intense legal scrutiny of the secretive company's finances and corporate inner workings.

### Tokyo option

The Wall Street Journal reported last week that Aramco was considering a two-stage process with a domestic debut and a subsequent international listing-possibly in Tokyo. "One of the primary listings is going to be local but we are also ready for listing outside," Nasser confirmed.

A Tokyo listing would be a setback for London, New York and Hong Kong, which have all vied for a slice of the business. Political uncertainty in Britain over its plan to exit the European Union and mass protests in Hong Kong have diminished their prospects, the Journal cited Saudi officials as saying.

Prince Abdulaziz bin Salman was promoted Sunday to the pivotal role of energy minister, replacing veteran official Khalid Al-Falih, as the top crude exporter accelerates preparations for the much-anticipated IPO. The appointment of Prince Abdulaziz, one of the sons of Saudi Arabia's King Salman, marks the first time a royal family member has been put in charge of the all-important ministry.

In his first comments since taking up the role, the minister on Monday endorsed oil supply cuts, saying in Abu Dhabi that they would benefit all producing nations amid an oversupplied market and sagging prices. Crude prices are currently moving around levels of $60 a barrel, compared with more than $75 a year ago, but were given a boost on Monday by the comments.

### Prices in decline

The OPEC petroleum exporters' cartel and key independent producers are deliberating how to halt a slide in prices that has persisted despite previous cuts and US sanctions that have squeezed supply from Iran and Venezuela. Abu Dhabi is also hosting this week a meeting of the Joint Ministerial Monitoring Committee (JMMC) of the OPEC+ alliance for a supply cut deal reached last year. The ministers will consider fresh reductions, even though analysts are doubtful such a move would succeed in bolstering crude prices which have been badly dented by the US-China trade war. The Aramco listing is key to Saudi's economic future. Its GDP grew by 2.4 percent last year but the International Monetary Fund (IMF) said growth would fall to 1.9 percent in 2019 due to substantial oil output cuts. The IMF said Monday that fiscal reforms, including a consumption tax and higher energy prices, have started to yield results but that more is needed to plug a chronic budget deficit.

The prospect of falling short of the $2 trillion valuation desired by Saudi rulers is widely considered the reason the IPO-previously scheduled for 2018 — has been delayed.

Earlier this month, Aramco said its first half net income for 2019 slipped nearly 12 percent to $46.9 billion on lower crude prices. It was the first time the company has published half-year financial results and comes after Aramco opened its secretive accounts for the first time in April, revealing itself to be the world's most profitable company. — AFP

# Technology hands startups key to $5.1tn FX market

**LONDON:** More than five years since global foreign exchange (FX) trading was tainted by a rigging scandal, a handful of banks are more dominant than ever and show no sign of weakening their grip on the $5.1 trillion-a-day electronic market. But below the radar a new breed of start-ups is seeking to break their hegemony by pursuing the smaller but higher-margin customer-facing FX business used by asset managers, pension funds and insurance companies.

Data analytics firm Coalition estimates the bulk of daily flows are between banks and the majority are likely to remain with the big lenders, notably Citi, JPMorgan, Bank of America Merrill Lynch, HSBC and UBS who together hold almost 45 percent of worldwide FX trading, up from around 35 percent in 2012.

The upstarts say banks can read trading patterns to obtain higher prices from asset managers, who should instead save millions of dollars a year, as much as 50 percent in FX trading costs, by trading directly with each other. The cost of trading depends on size, currency, liquidity and the time of day. For a $25 million transaction in euro/dollar, a mid-sized asset manager can pay a spread of 1 to 2 "pips" for trading via a large bank, which equates to $5,000. Banks, who often use FX trading to win more lucrative business such as structured products, hedging solutions and treasury services, say that their dominance and creditworthiness allow them to offer clients the best prices in the safest way. "We can also match more liquidity internally, allowing us to secure better pricing for clients than if we always had to go out to the market as those smaller companies have to," said Richard Anthony, HSBC's Global Head of FX eRisk.

Nevertheless, there are now 80 or more venues trading FX, with one or two launching each year, Marketfactory, a firm that offers clients an interface to trade on them, says.

This is largely because technology costs, previously a major barrier to entry, have dropped, with the Bank of International Settlements estimating that developing a trading platform costs $5-$10 million, versus $100-$150 million in the early 2000s. One preparing to go live this year is New York-based FX HedgePool whose founder Jay Moore said banks include costs such as credit and market risk transfer, capital, technology, platform fees and staff salaries in their quotes. "We seek to significantly reduce these costs by allowing institutions to source liquidity from each other," said Moore, who will face competition from platforms like London-based 24 Exchange, which began operating in August.

### Caught in the net

Investors betting on currencies or hedging stock and bond exposure do so mostly on bank platforms, where they choose from continuously streamed quotes. Alternatively, they use multi-dealer platforms such as those from Refinitiv or CME, where banks compete on price. Although a breakdown of bank market shares for serving buy-side customers is not easily available, in London, the world's biggest forex trading hub, six dealers accounted for 74 percent of all spot transactions in October 2018, Bank of England data shows. And in New York four dealers corner three-quarters of spot trading, New York Federal Reserve data shows.

The start-ups argue that while transaction "spreads" on currency trading have plummeted in recent years, investors often pay significantly for "market impact", the degree to which large, staggered orders can skew market pricing. Claude Goulet, CEO of London-based Siege FX, another start-up set to launch in 2019, says his analysis shows the costs associated with market impact for a recent large euro/dollar transaction totalled 2.5 times the cost of the spread paid.

Siege is building a matching system to check when one asset manager's currency needs can be "netted" against another's, which would eliminate the need to trade through banks.

Goulet reckons large investors netting 20 percent of their forex flows through Siege would save millions of dollars a year. "If you are systematically trading with the same banks you can assume the bank knows what you are doing," he said. "That doesn't correspond with reducing your footprint."

### Niche providers

The biggest challenges facing FX startups are settlement risk and operational differences, where an asset manager's system is not compatible in matters such as legal documentation.

Because FX is traded bilaterally "over-the-counter" rather than on exchanges, there is a credit exposure for two days after the trade is executed before funds are exchanged.

While this is not a concern for a major fund manager trading with a big bank as its counterparty, it puts them off dealing with startups, said David Mercer, CEO of LMAX Exchange said.

"The large banks still dominate FX trading for this reason (operational issues such as legal documentation). That might change in the next 10 years but for now, the new providers are very much niche providers," Ugo Lancioni, managing director of currency management at Neuberger Berman, said.

### Big banks dominant

None of the half a dozen funds canvassed by Reuters appeared concerned yet about market concentration, saying they were open to trading with startups but the credit issue needed solving.

If anything, the squeeze on forex trading profitability since the 2008 financial crisis has made it difficult for smaller banks to compete with the giants on price. Andreas Anschperger, European head of FX trading at Allianz Global Investors said he had not observed an adverse impact. His company has opted to receive FX quotes from 10-15 banks, down from as many as 20 some years ago. "(The big banks) have the ability to support us, we can select a full suite of services," he said. — Reuters