

## Australia's Spot FX Markets

### Internationalisation of business sees uptake growing among SMEs

Welcome to the first issue of East & Partners' discussion paper, Research Note. We kick off this new monthly publication with a look at Spot Foreign Exchange (Spot FX). The most common foreign exchange transaction, Spot FX continues to grow in importance for all segments of the market that East researches. Our SME Banking Markets research program, which looks at the banking experiences of companies turning over A\$5 to 20 million, reveals that nearly 76 percent of these businesses use Spot FX. Usage is growing steadily in this segment and its importance to SMEs, as reported to East, is growing even more quickly.

### Big 4 own the lion's share, Travelex booming

Australia's Big 4 commercial banks currently have 56.6 percent of primary Spot FX relationships with SMEs, up from 55.9 percent in the previous study six months before (see Exhibit 1). The high uptake of Spot FX among SMEs reflects the escalating internationalisation of this market segment. It is clearly viewed as a core product need by a large proportion of SMEs and we expect to see this trend continuing over the next six to 12 months. When it comes to buying currency SMEs want a quick and easy response from their service provider; others may simply seek out "deal of the day".

Although the major banks are not currently experiencing too much leakage among their SME Spot FX customers, they need to ensure they continue to offer a competitive product. It is clear that SMEs and smaller commercial companies are willing to move away from their transaction bankers to engage a product specialist. Hence the success of a company like Travelex.

Travelex is finding a rich vein of business among SMEs and smaller commercial companies because it offers good pricing and is straightforward to deal with. Furthermore, these customers know Travelex will not attempt to push other

products at them in the way banks often do, when all they require is currency. This high service level is borne out in the satisfaction ratings awarded by SMEs, where Travelex is rated the best performing Spot FX service provider by SMEs which use its services. The company is also the most improved performer since the previous report was conducted six months earlier (see Exhibit 2). The performance of international banks in this product area is solid with Citigroup and HSBC rated well by their customers. Regional banks, however, tend to struggle to deliver the level of service required even by smaller customers.

### Spot FX among commercial companies at an all time high

As is the case with SMEs, take up of Spot FX among commercials (companies turning over A\$20 to 340 million) is growing quickly, with almost 77 percent using Spot FX. Both importance and satisfaction levels are also increasing among commercial companies. In this segment, the Big 4 banks are consolidating their hold on the Spot FX market with 63.1 percent of primary Spot FX relationships, compared with 62.7 percent at the time of the previous report. In fact, the Big 4 banks have improved their share of this market with the exception of National Australia Bank, which shed customers in the wake of the FX trading saga. Traditionally, however, NAB has performed strongly in this area and can expect to regain traction over coming months. The internationals are producing mixed results in Spot FX while Western Union and Travelex are rapidly growing share, albeit starting from a low base in this market segment.

Exhibit 1

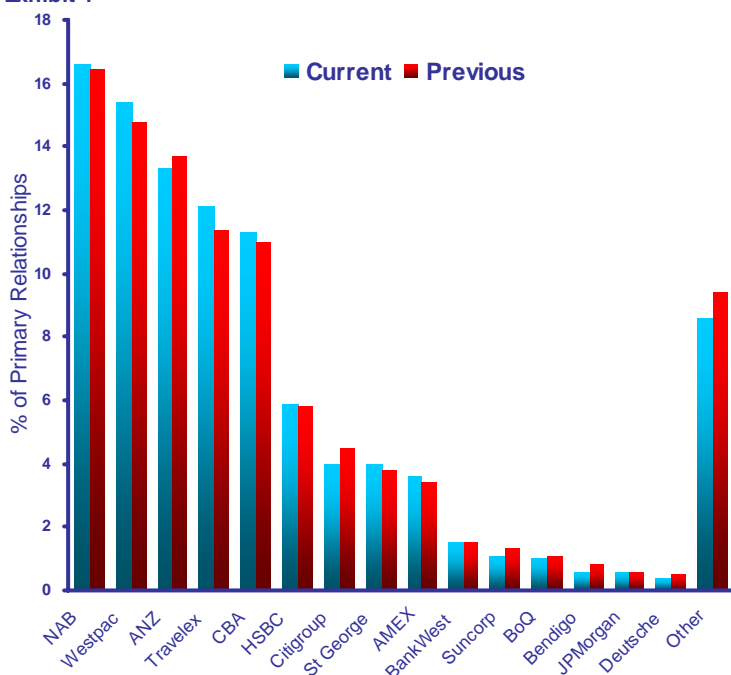


Exhibit 2

### Spot FX Performance Ratings - Overall

	Average Rating Reported				
	1 (satisfied)	2	3	4	5 (dissatisfied)
	Current	Previous			
Travelex	1.84	1.96			
Citigroup	2.00	1.98			
HSBC	1.93	1.98			
ANZ	2.00	2.00			
CBA	1.96	2.00			
St George	1.95	2.01			
Bank of Queensland	2.05	2.08			
BankWest	2.05	2.08			
Westpac	2.06	2.09			
Deutsche	2.14	2.10			
Bendigo	2.11	2.11			
NAB	2.05	2.12			
Suncorp Metway	2.18	2.17			
JPMorgan	2.17	2.18			
Other	2.11	2.12			
TOTAL	2.01	2.05			
<b>Importance Rating</b>	<b>1.95</b>	<b>2.03</b>			

Note: previous is 6 months earlier