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FUTURE TRENDS IN THE GLOBAL FINANCIAL MARKETS

Micro and macro influence on financial market

- The financial market is in the Czech Republic divided into money market and the capital market.
- Money market is specialized in trading with short – term loans and securities.
  On capital market there are traded long – term financial products, mostly bonds, common shares and mortgages.
- The main and special infuence on Czech financial market has the privatization and formation of stock market, especially formation of so called RM-system with its consequences.

Factors which affect the financial market

- The interest rate
- Variety of financial market products
- Expectations of economic crisis
- Expected and real level of inflation
- Government policy
- Income taxation, absence of taxation of state bonds interest
- Absence of traditon of financial market
- Global firm´s health
- Rating which is made by specialist rating organizations
- Monetary policy, of CNB
  (discount rate, obligatory requited reserves and operations on the open market)

FUTURE TRENDS IN THE GLOBAL FINANCIAL MARKETS

- The total revolution in financial markets started in the mid-1980s, still shows no sign of slowing down
- Period of rapid change is caused by:
  - deregulation
  - information technology
  - changing economical and political outlook

KEY TRENDS

- 11 September
- The Economic Outlook
- The Internet
- Electronic Trading
- Mergers and Cooperation
- Emerging Markets
- Economic Centres
- Globalisation
- New Technologies
- Worldwide Trading
- High Volatility
- Commodity Prices Growth

11 SEPTEMBER

- It is important not to look at the immediate impact on firms and markets but to look at some of the trends and implications
- The biggest problem is with corporate back-up plans
- These plans did not include sites in different geographical areas, they failed to consider that transportation could be disrupted and that there are energy and telecommunication infrastructures without alternative networks that could be put quickly in use

11 SEPTEMBER

- To reduce future risks, banks are planning to disperse staff over a wider area
- Financial markets were exposed to a few “choke points”
- These choke points are key hubs such as exchanges, clearing firms and inter-dealer brokers
- Disruptions at these points cause significant spillover effects for the rest of the financial services system

THE ECONOMIC OUTLOOK

- The bull market of the 90s has turned into bear market at the beginning of the 21st century
- Bank profits suffer because the corporate finance activity reduces sharply
- This is all caused by the general economic climate, which is characterised by uncertainty and decline

THE ECONOMIC OUTLOOK

- The period of low interest rates has had a beneficial effect on fixed income, but there is now a deteriorating outlook for corporate profits
- Bond issues are less attractive
- Takeovers and mergers

THE INTERNET

- One of the most important trends nowadays
- For the customer cheaper and more efficient service
- For the supplier it brings a new sales and distribution channel, but on the other hand also exposure to new competition
- The effects of Internet will be felt in all financial markets – banking, bonds, equities, foreign exchange, derivatives and insurance

ELECTRONIC TRADING

- This continues to change the role of traditional traders and sales staff
- Add competition for traditional brokers
- Is usually made via Electronic Communications Networks (ECN)

ELECTRONIC TRADING

- An ECN is an electronic system that attempts to facilitate (for market makers) or eliminate (for individual investors) third party orders entered by a client's brokerage to be executed in whole or in part
- ECNs network major brokerages and traders so that they can trade between themselves without having to go through a middleman
- The advantage of an ECN is that it displays orders in real time, whereas on the NYSE, most investors are limited to only viewing the best bid and ask prices

ELECTRONIC TRADING

- Variations of ECNs in the market:
  - **Instinet**
  - **Island**
  - **SelectNet**

ELECTRONIC TRADING

- **INSTINET**
  - Instinet was the first ever ECN (founded in 1969)
  - It was originally a way for brokerages to display bid and ask prices for practically every stock in North America and abroad and was first used by institutions to transact with each other
  - Today it also includes a select group of smaller brokerages
  - Instinet is used to execute a large proportion of orders on Nasdaq and is primarily entered by market makers
  - Because of this exclusive access many of the large block orders on Nasdaq stocks are traded through Instinet
  - More recently Instinet has tried to level the playing field by lowering access fees and allowing individual investors and small firms to access its orders

ELECTRONIC TRADING

- **ISLAND**
  - Popular among smaller traders because everyone placing an order on Island is on equal ground
  - Island puts all active orders in the "Island Order Book," which lists all of the bid and ask orders for each individual stock
  - Island is considered very easy to use and relatively inexpensive compared to other ECNs
  - In short, Island allows anybody to access the Nasdaq in a way that was not possible in the past without becoming a member firm

ELECTRONIC TRADING

- **SelectNet**
  - Is primarily used for trading between Market Makers
  - SelectNet is known as a negotiable system, which means that market makers may or may not execute your order immediately, as on other ECNs
  - Although, they are required to execute immediately if the order is at the advertised price and it appears on the market maker's screen
  - SelectNet is popular among traders because orders can be preferenced, which allows a trader to isolate a particular market maker to trade with
  - This is advantageous because traders can target market makers who are active in the stock he/she wants to trade
  - This way the trader will get immediate attention, which usually results in a faster execution

ELECTRONIC TRADING

- **SelectNet**
  - There are a few others that are used to facilitate trading on Nasdaq stocks
  - One being SOES, but there are also other ECNs offered by Bloomberg, Terra Nova, and others
  - The risk management systems are more and more important
  - The Basle Committee rules (Basle II) are now extending the scope of capital adequacy by asking banks to address operational risk
  - Also Real Time Gross Settlement systems have become widespread and it means that settlement times are moving to real time
  - In derivatives the growth continues to be strong, both in established and in newer products such as credit derivatives

MERGERS AND COOPERATION

- To the mergers and alliances of banks, we must now add those among stock exchanges (NASDAQ/EASDAQ/American Stock Exchange), derivative exchanges (EUREX), across both (Euronext/LIFFE, LSE/OM), clearing houses and money brokers

EMERGING MARKETS

- Emerging markets are markets in developing countries
- For example Argentina, Brazil, Czech Republic, Hungary, India, Mexico, the People's Republic of China, Poland, Russia, etc.
- At the beginning of 1990s many investors were looking for higher yields and geographical diversification and so they discovered securities in developing countries
- But then some crises appeared (Mexico 1994-1995, South Asia 1997, Russia 1998, Brazil 1999) and it of course dampened their optimism
- They found out, that investments in emerging markets involve many risks
- But many still believe, that emerging markets offer great opportunities for yield enhancement and portfolio diversification

ECONOMIC CENTRES

- Europe
- Japan
- Emerging Markets
- Asia and Russia
- Latin America

ECONOMIC CENTRES

- **EUROPE**
  - The Euromarket originated in London and spread from there to other European centres, and later to financial centres throughout the world
  - Today, Euromarket is an offshore money and capital market, with trading around the clock in all major financial centres
  - The currency of denomination used in transactions is not the official currency of the country where the transaction takes place
  - Major centres of Euromarket activities include London, New York, Paris, Brussels, Frankfurt, Luxembourg, Tokyo, Hong Kong, and Singapore
  - Although dollar-denominated instruments constitute a major segment of Euromarket, the euro, the British pound sterling, and Japanese yen are also important Eurocurrencies

ECONOMIC CENTRES

- **JAPAN**
  - The world̉ s largest economy and capital market behind the USA and the European Monetary Union
  - For more than a decade it has experienced an economic recession and depressed securities markets
  - The origins of Japan's problems can be traced to the bubble economy of the 1980s, when the Nikkei-225 stock average soared to close to 40,000 and real estate process reached ever greater heights
  - Convicted that prices would continue to climb, commercial real estate developers borrowed excessively to fuel real estate investments
  - Homebuyers took on huge mortgages

ECONOMIC CENTRES

- **JAPAN**
  - In 1990 the bubble collapsed
  - The ensuring sharp decline in real estate values – to 70 to 80 percent below their highs in the 1980s – result in huge losses
  - According to the Ministry of Finance, by 1998 bad real estate loans amounted to 77 trillion yen (642 billion USD), causing a serious deterioration in the capital base of the borrowers and financial institutions that had lent to them

ECONOMIC CENTRES

- **EMERGING MARKETS**
  - The term *emerging market* refers to the securities markets of a developing country and the use that country makes of international capital markets
  - Countries considered to be emerging markets generally possess some, but not necessarily all, of the following characteristics:
    - A low per capita gross domestic product
    - Recent liberalization of economic and political systems
    - A lack of well-developed capital market
    - Nonmembership in the Organization of Economic Cooperation and Development (OECD)

ECONOMIC CENTRES

- **EMERGING MARKETS**

  - Examples of emerging markets include Argentina, Brazil, India, Mexico, the People's Republic of China, Poland, and Russia
  - Some consider Greece, Portugal, Singapore, and Turkey to be emerging markets, but these countries possess fewer of the aforementioned characteristics
  - Many also refer to most countries in Africa, some Central American nations, and a number of the former Soviet republics as preemerging markets

ECONOMIC CENTRES

- **ASIA AND RUSSIA**
  - Since the financial crisis (1997), most of these nations have maintained restrictions on flows of foreign exchange
  - Some of them still peg their currencies to the U.S. dollar, some peg the currency at a fixed rate, and others allow the currency to move within a narrow band
  - Currencies, relative to the U.S. dollar, were in 2003 still weaker than the 1997 levels

ECONOMIC CENTRES

- **ASIA AND RUSSIA**
  - In most of these nations the corporate bond sector is insignificant and still underdeveloped
  - So it is good to focus only on the stock markets
  - In comparison with the U.S. market these markets are much smaller, other differences include daily limits on price movements, regulated minimum tick size, and separate morning and afternoon sessions
  - Several countries also limit the percentage of foreign ownership of companies in certain industries

ECONOMIC CENTRES
ASIA AND RUSSIA

Currency	Symbol	Exchange Rate in 01/1997	Exchange Rate in 01/2003
Chinese yen	CNY	8.3260	8.2775
Hong Kong dollar	HKD	7.7397	7.7994
Indonesian rupiah	IDR	2369.30	8750
Malaysian ringgit	MYR	2.4900	3.8000
South Korea won	KRW	854.07	1176.45
Singapore dollar	SGD	1.4061	1.7363
Taiwan dollar	TWD	27.477	34.571
Thai baht	THB	25.726	42.773
Russian ruble	RUB	5.6088	31.80

ECONOMIC CENTRES

- **LATIN AMERICA**
  - Together, Argentina, Brazil, and Mexico have a population of about 300 million – larger than the population of the United States and about 60 percent of the population in Latin America and the Caribbean
  - Despite their large populations and considerable resources, these three nations have experienced several financial crises in recent decades as well as periods of growth

ECONOMIC CENTRES

GDP OF BIGGEST FINANCIAL CENTRES IN 2004

COUNTRY	GDP IN MILLIONS OF USD (2004)
Brazil	603,783
European Union	12,865,602
China	1,653,686
India	665,071
Japan	4,671,198
Russia	581,783
USA	11,734,300

GLOBALISATION

- The information technology is everyday more and more advanced, the cooperation among financial regulators is greater and greater
- This all means that the international capital markets have linked more closely
- Across borders move larger sums of money and more countries have access to the global capital market
- The largest financial services companies (such as Morgan Stanley, Goldman Sachs, Citigroup and J.P. Morgan Chase), in order to serve clients better, have become global competitors

GLOBALISATION

- They have operations in almost all countries with significant market activities
- The increased linkage of capital markets, as a result of the globalization trend, can lead to spillover effects and financial contagion
- So a local financial crisis can spill over to other parts of the world and cause a global financial crisis.

NEW TECHNOLOGIES

- Technological advances have challenged many of the fundamental assumptions about how markets work and facilitated the creation of new competitive structures
- The Internet has changed the way firms reach customers and the products they can put at their clients` fingertips
- The Internet and computer networks have processed more and more financial transactions
- Millions of customers conduct their banking and stock and bond trading online
- By presenting bills and delivering account statements, research reports, and other materials online, companies cut operating costs and improve efficiency

NEW TECHNOLOGIES

- Alternative trading systems (ATS) and electronic communications networks (ECNs) now offer significant to traditional securities exchanges
- These trading systems offer a mechanism for matching buy and sell orders without an intermediary
- In addition, new technology has transformed securities trading by shortening the settlement cycle, the amount of time required for payment of funds and delivery of securities, from trade day + 3 days (T + 3) to trade day + 1 day (T + 1)
- Advances in technology have brought about those changes and benefits
- However, the increasing use of technology has had certain unfortunate side effects, such as prospects of computer failures due to hackers or terrorists
- Corporations have to allocate resources to continuously upgrade their technology and to establish proper backup facilities and business continuity plans

WORLDWIDE TRADING

- Nowadays you can trade nearly on all markets 24 hours a day 7 days a week
- This is of course thanks to the development of technologies and mainly to the Internet

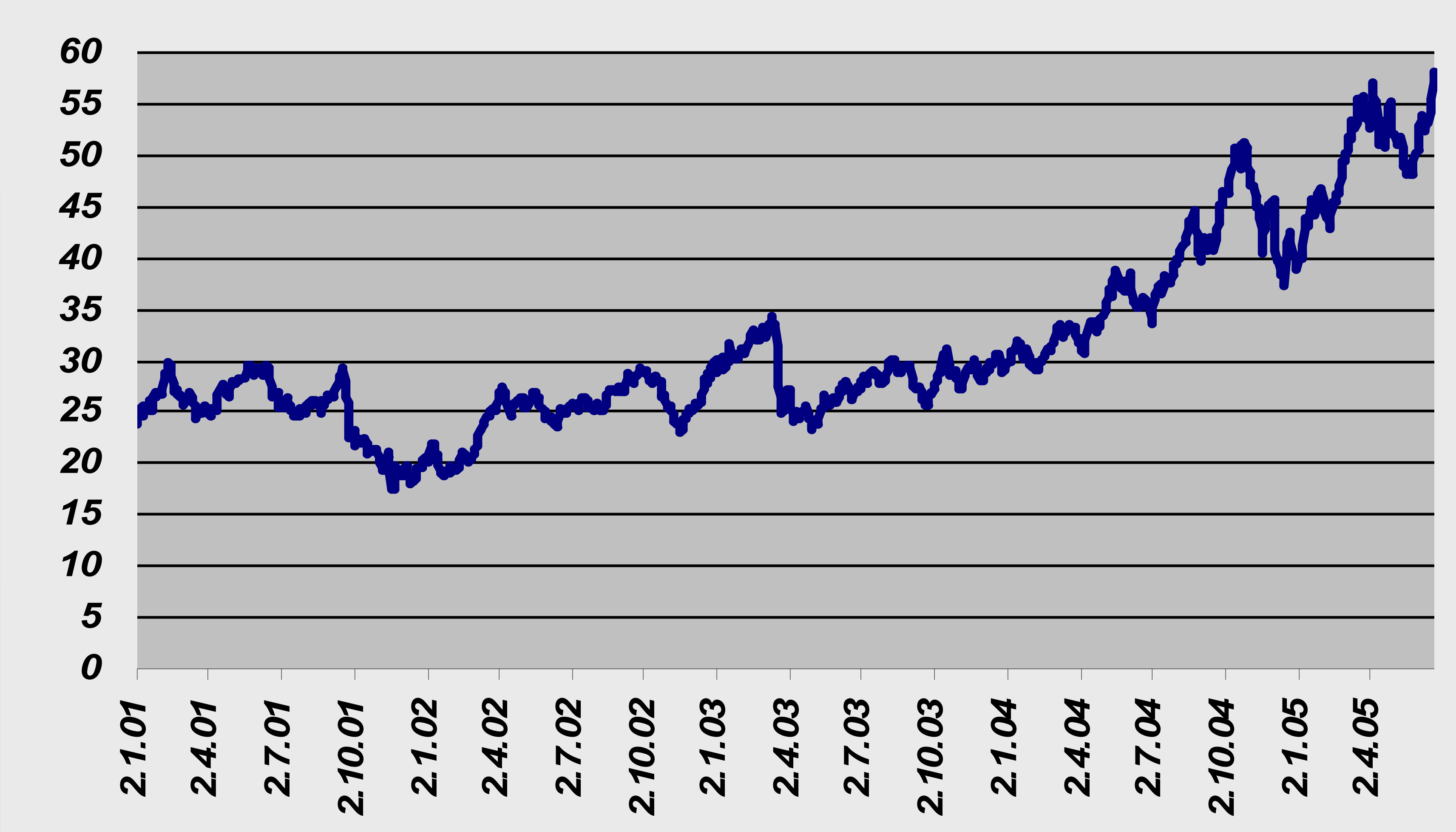
HIGH VOLATILITY

- Volatility is a statistical measure of the tendency of a market or security to rise or fall sharply within a set period
- High volatility then means, that these rises and falls are very significant

COMMODITY PRICES GROWTH

- Crude oil prices behave much as any other commodity with wide price swings in times of shortage or oversupply
- The crude oil price cycle may extend over several years responding to changes in demand as well as OPEC and non-OPEC supply

COMMODITY PRICES GROWTH
CRUDE OIL



COMMODITY PRICES GROWTH
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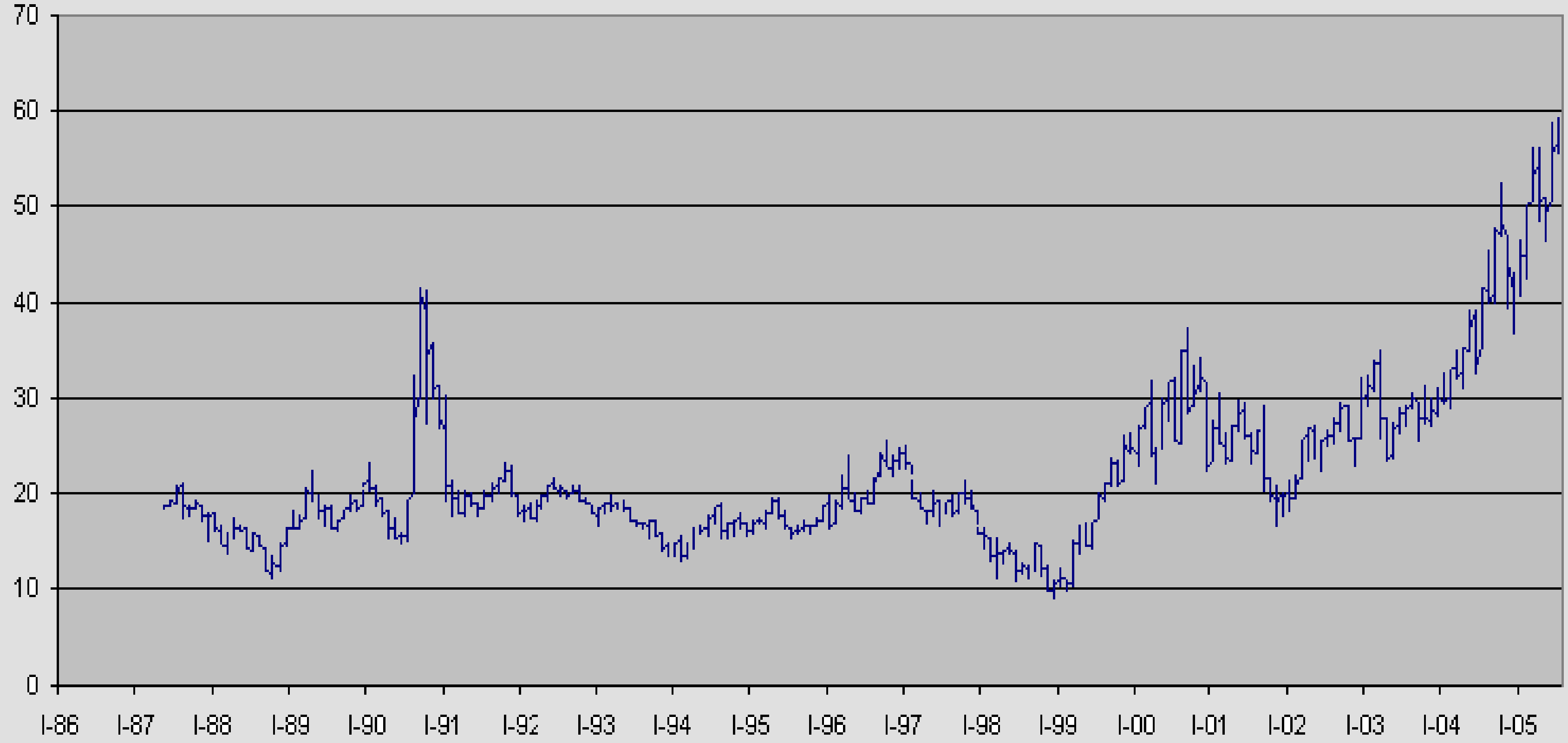
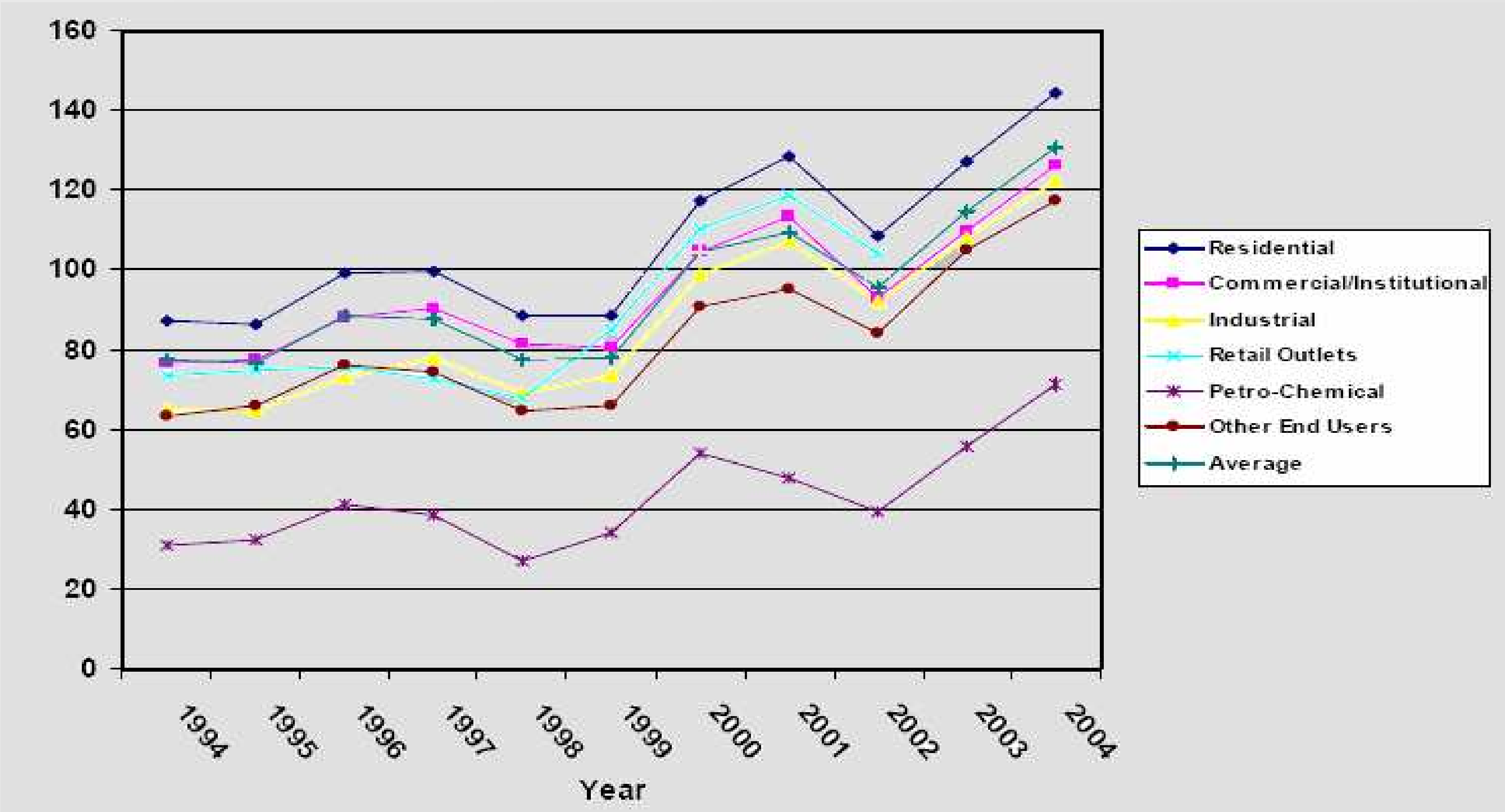


COMMODITY PRICES GROWTH

U.S. CONSUMER GRADE PROPANE PRICES BY SALES TYPE



COMMODITY PRICES GROWTH
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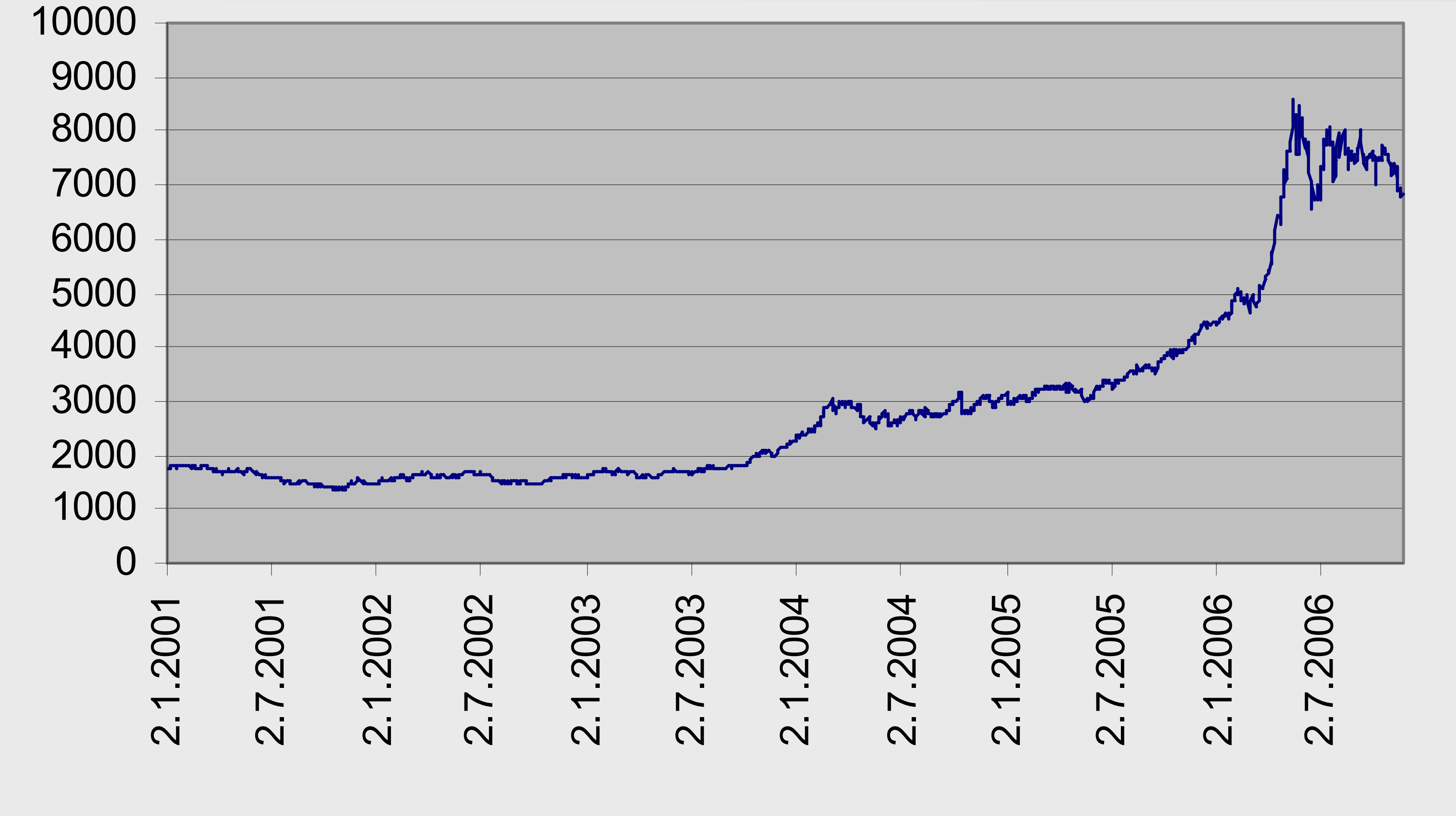

COMMODITY PRICES GROWTH
PRICES OF CRG INDEX