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CFD market poised for rapid growth

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MELBOURNE, Aug 6 AAP

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The market for the high-risk derivatives contracts-for-difference (CFD) market is poised for rapid growth even though a quarter of dealers who have traded the instruments say are unwilling to try them again, research finds.

A CFD is an agreement to exchange the difference in value of a particular asset between the time at which a contract is opened and the time at which it is closed.

The high-risk derivative instruments are typically used by sophisticated traders taking geared, short-term positions in volatile markets.

They can be used to trade equities, indices, foreign exchange and commodities but many traders are unwilling to repeat the high-risk activity.

Research firm Investment Trends says total CDF trader numbers in Australia rose to 32,000 by June 2009, from 26,000 in 2008, and that 30,000 more plan to trade the instruments.

Investment Trends principal Mark Johnston said on Thursday that strong growth had been a hallmark of the market since its genesis in Australia in 2002.

However, trader numbers and average trade sizes shrank in 2008 as the equity market fell.

"Thirty thousand more are planning to try CFDs, but not all will act on that intention," Mr Johnston said in an interview.

Investment Trend's latest annual report was compiled after surveying 7,598 investors, of which 2,016 were current CFD traders, and 348 intended to trade CFDs within 12 months.

The findings showed 267 investors who had tried the high-risk trading instruments and then stopped, with 28 per cent being put off altogether.

The remaining 72 per cent say they will try it again within the next 12 months, Mr Johnston says.

The niche market is just four per cent of the numbers who trade in the direct share traders market, which has around 700,000 participants, Mr Johnston says.

Global derivative players CMC Markets and IGMarkets lead the local market,

CMC Markets has a 22 per cent share but is the most widely used provider with a 41 per cent share of unique clients and the highest trading volume, at 30 per cent of the total market.


"Having multiple accounts is the norm," Mr Johnston said.

Investment Trends said Macquarie Prime, MF Global and City Index Australia had market shares of 10 per cent, seven per cent, and six per cent respectively.

Before April 2007, the CFD market was the domain of technical traders, but intense market volatility brought about by the financial crisis drove client numbers up over the past 18 months.

By Alison Bell

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