FINANCIAL DISPUTE RESOLUTION

Exotic currency pairs and geo-political change

An online currency trader with a taste for the exotic was left high and dry when a sudden geopolitical change blew his margins and his broker wanted a top-up.

The trader traded USA/ZAR, an exotic currency pair, so named because it is an uncommon pairing. Exotic currency pairs have unique qualities including vulnerability to geopolitical change and typically low and slow transactions, making them easier to predict.

However, the bid-ask spread can be highly volatile depending on political changes, environmental disasters, or other ecopolitical change. In this case, a sudden political change in South Africa caused the spread to balloon out way beyond its normal range.

This had the effect of bottoming out the margin agreement between the trader and broker. The broker then demanded a top-up (margin call) to insure its investment. The trader suffered losses.

FDRS dismissed the trader's complaint that the trading platform was to blame for his losses. The trader argued that the platform should have cautioned or safeguarded him against the trade due to the extreme width of the spread. However, the online trading site that the trader was using is a type that offers lower fees and allows for rapid, end-to-end trading without any intervention. The ramification of this kind of trading is that there are few, if any, investor safeguards and a trade will be executed regardless of the spread.