CFD Trading Australia Market Outlook 2021 – Trading Authority

Online CFD Trading in Australia surged alike many other online services during 2020, bringing convenience and accessibility to retail traders. The number of active traders has increased by 20% year over year to 710,000 and trading volume is up circa 100% in Q1 2021. The new peak is mainly driven by the quick recovery from the drop caused by COVID fears and online trading trending globally on social media because of meme stocks and cryptocurrencies.

The CFD Trading Market in Australia

CFDs (Contracts For Difference) have gained popularity over the last ten years with an early CFD trading retail rise in the UK. The online players have now expanded all the way to Australia, offering a new accessible way to invest globally with leverage.

CFDs or "Contracts for difference" markets have been around since the 1980s, gaining popularity in the UK in 1999, and finally making their way into the Australian trading markets circa 2002. CFD trading is different from traditional stocks in that it allows investors to make profits from speculative price predictions on the underlying assets without actually owning them.

Trading CFDs is a cheap way to get into trading markets, shares, forex, ETFs, and crypto while enjoying maximum financial leverage which used to be exclusive to professionals. Some online trading platforms even allow investors to start trading CFDs with as little as $10 (USD).

Fastest Growing Australian CFD Trading Platforms 2021

Due to the structure of Australia's financial market, CFD trading platforms have to be duly authorized and regulated before users are invited to trade in the platforms. Having said that, here are some of our top picks.

Skilling.com

Skilling is a new CFD trading platform that offers a range of financial instruments to global traders. It is owned by Scandinavians and is regulated in Seychelles. With over 800 different instruments available for trade, the company delivers a robust platform for both Forex and CFD trading.

Plus500

A leading CFD trading platform with more than 317,000 global clients. They offer a simple trading platform with +2000 CFD markets to trade. They are duly regulated by ASIC, FCA, CySEC, and MAS, spanning four different countries, including the UK and Singapore.

FP Markets

A CFD Trading Platform owned by First Prudential Markets Pty, it is a duly regulated online Forex and CFDs platform. AFSL number is 286354 and they're located at Level 5, Exchange House, 10 Bridge Street, Sydney NSW.

IC Markets

IC Markets was founded in 2007 with AFSL number 335692. They're available on the MetaTrader 4 platform as well as MetaTrader 5, and cTrader platforms. IC Markets has a high leverage ratio, low spreads, and a useful education resource center for beginners.

FXCC

FXCC has been around for more than a decade and offers commission-free trading. They have a large educational resource center, which helps beginners to start trading quickly. They allow users to choose from +100 markets ranging from Forex to CFDs and Crypto trading.

CFD Trading in Australia - A Retail Market on the Rise

2007 was the first global peak of CFD trading. The quick adoption of this new derivative of shares trading saw many huge CFD brokers establish new branches, especially in Australia. These huge brokers include IG Markets and CMC Markets, to mention a few.

According to industry estimates, the number of active CFD traders in Australia currently stands at 710,000. In contrast, there were only 9,000 active CFD traders in 2005, representing more than 4x growth since its inception in the country.

Even today, CFD trading is still very popular in Australia. It is even believed that a third of the trades the ASX sees are from CFDs.

- According to the research of Australia's financial market, CFD trading saw the market turnover increase by 100% in Q1 2021 compared to Q4 2020.
- The number of active traders has risen by 22% in comparison to 2019 together with an increase in the frequency of trading by active traders.
- Available data from the big brokerages also shows that CFD traders are shifting from shares trading to index and currency trading.
- There are more than a thousand different CFD assets across several brokerages. The underlying asset choices range from a number of cryptocurrencies, indices, FX, and shares.

The ASX exchange-traded CFDs don't seem to resonate well with Australian traders. The reason for that is because traders like the freedom they enjoy with direct market brokers. The exchange model also costs a lot more, which clearly defeats the essence of CFDs.

Nonetheless, the stringent regulations from ASIC mean these expensive trading cuts across the board.

These regulations include:

1. CFD traders are protected against negative balances. CFD brokers are required to stop losses when the trader's losses exceed their account balance.

2. CFD trading platforms are prohibited from offering promotional gifts to retail investors.

CFD Trading Market - Key Driver and Trends for 2021:

Knowing the risks - CFD trading involves the use of leverage. When building leverage into a trading strategy, using effective risk management systems is vital.

COVID-19:

The economic fallout from the COVID-19 pandemic is ongoing. As the recent Indian surge in cases demonstrates, there may be more impacts coming at any time.

The Crypto Boom:

Most of the major cryptos hit all-time highs in 2021, only to see a large sell-off materialize in the late spring. This volatility offers traders ample opportunities to profit.

Bonds Remain Expensive:

Despite record borrowing from major governments, central bank intervention has kept bond yields near all-time lows. While not at record lows, interest rates are low by historical standards.

Choosing a Broker:

Choosing the right broker for a CFD trading strategy means fully understanding its product offerings. Many brokers offer similar products. Before deciding on which broker to use, a trader needs to fully understand the products that are available, and the terms the broker offers.

Macro View for Australian CFD Traders in H2 2021

The Australian markets remain highly leveraged to global growth, and the relationship between Australia and China.

While soaring commodity prices in 2021 are a benefit to many Australian resource companies, the rocky relationship between China and Australia may prevent Australian shares from fully participating in the supportive commodity price environment.

Offshore markets have been buoyant in 2021, as major central banks continue to support asset prices with easy monetary policy, and global shares hover around record levels. By any measure, shares are expensive. However, there are few other assets for investors to deploy capital into.

The Crypto Question

Once a digital novelty, cryptocurrency like Bitcoin has risen to new heights in 2021. Easy money policies from central banks may be helping cryptos rise to record prices. Despite widespread interest in cryptos by large investment entities, the crypto market remains volatile.

There are numerous ways to trade the crypto market. Many CFD brokers are offering their clients crypto products, but it is important to be aware of the costs involved in holding these instruments. Given the level of price movements in the crypto markets, CFDs are a prevalent option to trade cryptos over shorter time periods.

Investors who are interested in buy and hold strategies in the crypto markets usually hold the tokens outright, or via the futures market, CFD trading over the long term may be more expensive than other options.

Low Rates and Big Government Borrowing

It is impossible to ignore the relationship between the response to COVID-19 and accommodative central bank policy. The US government ran a record deficit of $3.1 trillion in 2020 and may surpass that level of borrowing in 2021.

Despite these levels of borrowing, interest rates remain at historical lows, and the US dollar is still the dominant reserve currency globally. While debt markets are ignoring massive deficits, the commodity markets have been bid during the first half of 2021.

China recently posted one of its highest PPI readings in modern history and has introduced de-facto price controls. Western nations are already deeply in debt, and have few options but to continue to issue new debt, and spend to keep their economies afloat.

New Imbalances and New Opportunities

The past three decades have been characterized by low inflation and rising asset prices. This trend may be coming to an end, and stagflation could be the next major trend in the global markets. While share prices are likely to continue on an upward path, we may see a new FOREX market emerge as nations attempt to control inflation via novel monetary policy.

CFDs offer Australian investors a low cost way to enter the FOREX market, and take advantage of what may become a new era of currency volatility. China is already working to launch a Central Bank Digital Currency, which would allow the People's Bank of China (PBoC) more direct control mechanisms over the nation's monetary policy.

Rapid interventions by central banks are likely to drive big swings in exchange rates, as global FOREX traders attempt to digest a new market where central banks can control not only interest rates, but also directly control the value of money at a retail level.

Trading Authority is a privately owned financial-services industry research company based in London, UK. We deliver independent, deep insights research on the behaviors, preferences, and needs of retail investors and intermediaries for the financial services companies that serve them across Australia, Singapore, Hong Kong, France, Germany, Spain, and the UK.

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