Richard Willsher

FX under the Corona lockdown - E platforms and algos come into their own

Richard Willsher investigates how electronic FX markets are performing as the global corona crisis deepens

With dealing room staffing around the world pared back to a bare minimum, remote access to e-platforms and market sensitive algorithmic trading strategies are proving the resilience of the FX market.

A perfect storm of market impacting events has played out. The March declaration of the COVID 19 pandemic; Government monetary and fiscal stimuli; the Russian / Saudi Arabia oil spat while demand nose-dived; sell-offs across most asset classes; the deluge of speculation, diverging news and analysis of every aspect of the coronavirus – all of these have sent tremors through the market to a greater or lesser degree.

Meanwhile the market has been busy. Data from settlement service CLS graphs market activity. "The high average daily traded volumes observed at the end of February, particularly USD2.30 trillion during the last week of February, have continued well into March," advises CLS. "Average daily traded volumes registered at USD2.30 trillion, up almost 27% compared to February 2020 as a whole. By product this was a rise of 55% in spot, 15% in FX swaps and 36% in forwards." Bearing in mind the March quarter end and a long period of low market volatility, Bloomberg's Global Head of Foreign Exchange Electronic Trading, Tod Van Name, says, "Volume across the board has been up sharply in both March and Q1 2020, including derivatives, most noticeably in forward outrights, which were up 40%."

Citi FX Managing Director, Global Head Electronic Platforms and Distribution Alaa Saeed, echoes this. "In March, volumes were higher across client segments, geographies and instruments. However, the instrument that has seen the most marked increase as a percentage is FX options… years of investment into our proprietary and patented Options Cube on Citi Velocity, has meant that we have been able to provide uninterrupted access to options liquidity to our clients electronically."

This demand for risk coverage is understandable with such uncertainty in the market. Therefore on-exchange currency derivative offerings reflected a similar story across all geographies. For example, Singapore's SGX logged a 58% year on year increase in its FX futures contracts to the end of March with volumes up 72% in notional value. Its flagship USD/CNH futures traded volume almost doubled to 1.3 million contracts, while month-end open interest climbed 54% year-on-year to US$5.4 billion. SGX INR/USD Futures traded volume climbed 37% to 1.6 million contracts as the Indian rupee dipped to historic lows during the month.

Emerging market (EM) currencies, in particular, have been hit with extreme liquidity volatility. All currency pairs have seen spreads widen significantly, even G10, though moving into April the situation has stabilised significantly.

E-PLATFORMS AND EXECUTION ALGOS

Speaking to participants paints a picture of a market living with a new corona normal, minute-by-minute, hour-by-hour and day-by-day, watching and reacting as the story continues to unfold.

"In G10 we've still been able to internalise the flow with our franchise," explains Mauricio Sada-Paz Global Head of eFICC Product and Distribution at Barclays Investment Bank. "EM has been harder to internalise, and we do have to hedge externally a bit more. Sometimes

Alaa Saeed

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Mauricio Sada-Paz

flows in EM are more one-sided, so it's harder to risk manage."

At the same time he points to the buy-side view of FX. "You have to remember that foreign exchange is a second or a third derivative for a portfolio manager. When they're managing a big equity or fixed-income or a mixed balanced portfolio, they want FX market access." This highlights real money activity in the market as well as more speculative hedge fund demand that has also burgeoned. This is against the COVID 19 background where homeworking has become the norm.

"We have traders with their full IT kit at home making markets, giving liquidity and offering seamless service to our clients," says Sada-Paz. "Our clients are clearly adapting too, a lot of them have started to work from home and we've seen that their thresholds to trade electronically have been increased, and we've seen bigger tickets on the electronic side because of that."

Part and parcel of being able to operate remotely and react in a timely manner to movements in the market has been continued access to data. Matthew Hodgson, Founder and CEO of London based Mosaic Smart Data, the data capture and analysis provider, says, "It's essential that FX traders can comprehensively use data and have access to real-time analytics. When trading volumes and the movement of currencies are so substantial, it's not possible for market participants to easily and fully digest available data."

He adds "There is a compelling need for data that is normalised, standardised and presented in a unified format to identify patterns and opportunities in fast-moving markets."

This chimes with the view of Bloomberg's Tod van Name. "Technology has provided the support necessary to engage quickly, across multiple markets, but also accelerated the rate at which they move. We have been very focused on making sure our clients are able to connect from home and continue to provide the valuable services they need. That also means providing transparency, liquidity, and reliability."

As the availability of machinery to handle the amount, complexity and speed of data has become vital, algorithmic trading tools have been thrust into the limelight. Noting that execution algos have become indispensible automated processes for normal workflow in all markets, Curtis Pfeiffer, Chief Business Officer at Pragma LLC, the New York based trading technology provider says, "In volatile markets, execution algos are even more valuable because they enable traders to handle more trades simultaneously. As spreads have widened, algos provide an opportunity to improve execution price by capturing spread and with the increase in the amount of market data, execution algos can respond faster than any human."

Unsurprising then that algo trading specialists have been busy. At BNP Paribas Asif Rasaq, Global Head of FX Automated Client Execution, Global Markets runs ACE (Automated Client Execution), the banks' independent trading unit. "Our volumes are up 150 per cent from what we normally trade at this time of year. We've seen a significant uptake in our algorithms, mainly because clients who tested the water, saw some significant cost savings from the marketplace. We've seen spreads at least three to five times what they normally are. Our adaptive algos respond to what's going on in the market and help clients carefully massage their orders into the market and capture that spread."

In addition, ACE has developed voice to algo communications to help homeworking clients access information and execute transactions if they don't have access to the "screen real estate" that they would normal have at their offices. Added to this, the firm has added voice capability so that clients can reach a member of staff who accesses algos for them; it's called OBO or "on behalf of." Asif Razaq says that his team has seen a threefold increase in demand for the OBO service over recent weeks.


Matthew Hodgson

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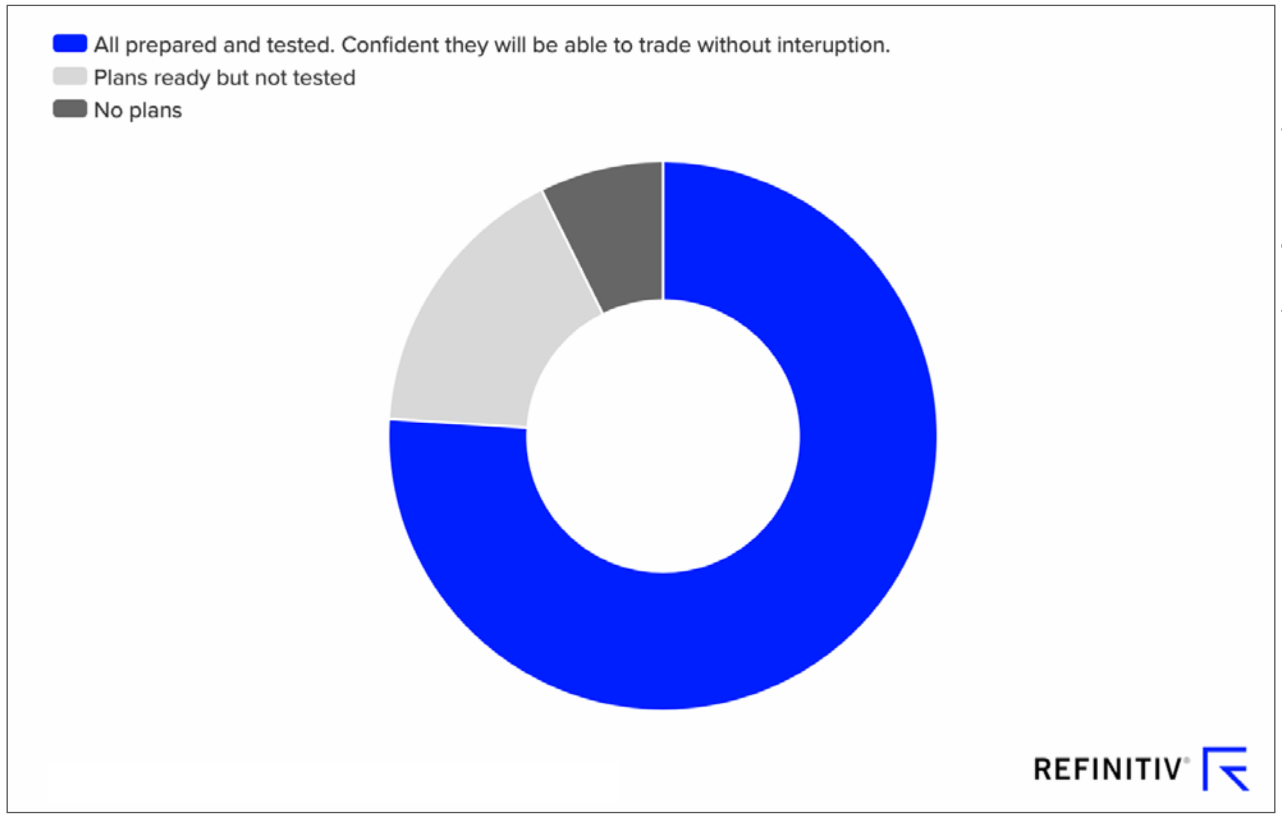

Source: Refinitiv survey of Global FX Trading community

FX trading community technological readiness during Coronavirus

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Tod Van Name

At Citi, Alaa Saeed paints a similar picture. "Given the challenging liquidity conditions, demand for our proprietary FX Algos via Citi Velocity have increased. These execution strategies can both trade against our franchise liquidity, and assimilate multiple sources of market liquidity."

LESSONS IN RESILIENCE

Saeed continues, "Thus far our proprietary platforms such as Citi Velocity have proven yet again to be resilient, and have been available to our clients without interruption throughout these challenging markets. We continue to invest in increased capacity and monitoring to ensure our clients are able to access our electronic platforms at all times."

This level of resilience and proof of the wisdom of having invested e-trading technology to achieve it, are two of the key takeaways from the current


Curtis Pfeiffer

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SPECIAL REPORT

This crisis underlines the importance of investing in business continuity systems

unprecedented conditions in the FX market.

"This is an excellent case study in the value of investing in business continuity and disaster recovery," says Bloomberg's Van Name, "which by the way, are two distinct disciplines. Bloomberg has spent years planning for business disruptions and was able to establish complete decentralisation of our personnel overnight. Our trading platforms have been in full operation without missing a beat."

Barclays Mauricio Sada-Paz reflects a similar view. "I think financial markets have adapted to many different crises. It's very important that clients can look to buy and to sell, and for us to be there to give them liquidity at all times. The whole street has done extremely well, the stability of the systems, the resiliency - that's been very impressive."

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Asif Rasaq

FINAL THOUGHTS

It may, however, still be early days in the crisis, we don't yet know. But the current uptake in remote working, leveraging e-trading platforms, data and strategies, may provide a glimpse of what may become more prevalent if and when corona recedes. BNP Paribas' Razaq thinks so. "I think what we're seeing is clients embracing a taste of the future. We believe that algorithmic trading is effectively where the markets are all going to be going. What this process has enabled them to do is to understand that in stressed markets, these algorithms can function, if they've got the right tools that they can use with them."
Those tools are now being tried and tested day-by-day and week-by-week and so far they're proving that they can play a central role in keeping the wheels of the world's most liquid market functioning surprisingly normally in the challenging COVID19 conditions that now prevail.