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FX London Series: Algos

Introduction

In December 2019, The Finance Hive hosted senior FX traders from a range of firms spanning geographies, investment styles and size of AUM for a day of in depth dialogue around how their FX strategy was evolving with regards to the actual execution and the technology that facilitates it. What they all had in common was a desire to brainstorm with their direct peers, seeking to share ideas on solutions to challenges they were all facing and make the most out of the opportunities for innovation that were available to them.

The meeting kicked off with opening remarks from **Anthony Bell-Chambers**, **Bank of England**, **Louise Drummond**, **Aberdeen Standard Investments** and **David Scilly**, **First State Investments**.

A theme that ran across all three short speeches included the acknowledgement that the FX industry was a complex one, with many different moving parts and stakeholders, so coming together to engage in open and transparent dialogue was immensely valuable.

Other topics raised that continued throughout the conversations on the roundtables included:

- The future face of liquidity and optimising the number of counterparties on buy side panels
- The increased use of automation and its ability to allow traders to focus more on value-add tasks
- Preparing for UMR deadlines and the role that clearing may play in the FX market of the future
- Getting better, actionable results from post-trade TCA and creating a framework for it to be able to feed more insights into active fund managers
- The evolution of algos, how buy side were using them and the inhibitors to further adoption
- The evolving challenges of executing in restricted markets, specifically onshore/offshore China and Russia
- Identifying the actual liquidity behind streamed prices on platforms, especially in the NDF market.
- The benefits and challenges of moving from forwards to futures
- Customisation of trading technology to match up with investment styles
- Monitoring markets and predicting large fluctuations
- The electronification of FX options

This report summaries both the objectives of the buy side joining the 11 roundtables, the themes that emerged at each table and the key takeaways that came from the discussion.

Algos

Hosted by:

Simon Wakelin, Head of FX Sales, EMEA, **State Street Global Markets**

Featuring contributions from:

Richard Turner, Senior Trader, **Insight Investment**

Alexis Laming, Senior Dealer FX & Gold, **Banque de France**

Niklas Jahnsson, Quantitative Trader, **Nordea Investment Management**

Dave Green, Executive Vice President & Partner, **Lumint**

Objectives:

Algo adoption and sophistication is another topic where there is significant disparity among the buy side. Some participants joined the discussions looking to improve the execution quality of the algos they used and the reduce the cost to execute, while others were looking to get a pulse on whether the tide was starting to turn and buy side were moving away from FX algos before they considered onboarding them themselves.

What was discussed:

- It was agreed that rigorous due diligence always accompanies sophisticated use.
- There was a split between buy side whose increased algo adoption was driven more by end-investor demands and those whose was driven by internal decision making on Best X.
- Without the data to back up selection and effective benchmarking it can be challenging for newer entrants to get to the point of the first movers. Some technology providers are starting to create aggregated data sets to get around this.
- There was not as much demand for NDF algos as expected at the table.
- More granular data is the big thing that people are demanding. The buy side want algo data to be more granular and more robust, but this feels a long way off. Algo providers need to be the drivers of change here.
- Buy side are keen to better understand the market impact of child order fills.
- One of the other more prevalent issues the buy side were concerned with was working out where their algo liquidity was coming from – banks or the open market?
- It was agreed that Low volatility environments were the best time to use algos. Further, it was debated as to how algos will evolve when volatility increases. Some algo users were having fantastic results in volatile EM markets, that were far greater than they expected to see.
- It was agreed that it is important to understand why you would use an algo and what you are looking to achieve to be able to use them effectively.
- The most important thing to remember is that algos do not remove decision making responsibility from traders.

The key takeaways:

- Data needs to be aggregated across the buy side to be able to access bank algos performance
- FX algos are beneficial in capturing EM liquidity in time zones where you might not expect
- Peer-to-peer matching algo for forwards would be a really interesting development
- Buy side demand for all data from execution is increasing and banks are delivering more in response