FX Leaders Series: Automation

Introduction

In the summer The Finance Hive brought together a small group of buy side traders interested in FX automation. Although they differed in the extent to which automation was a feature of their existing workflow and execution, they were united in their appetite to learn, share experiences and brainstorm on expectations as to the next steps. The group were keen to capitalise on opportunity and assess the benefits that automation may have for their firm.

Also joining the call were three representatives from 360T – who were on hand to provide market expertise around the data required to analyse and implement more systematic and advanced automation.

While the atmosphere was mainly optimistic and participants at all levels of the automation spectrum were keen to understand and identify opportunities where it might be able to make their workflow or execution more efficient and cost effective; there was also some concern expressed as to what the future role of the buy side trader might look like.

Automation was ultimately seen as an enabler – but only to those who could be dynamic enough to embrace evolving responsibilities and grow their skill sets. There will always be a need for the human touch, and counterparty relationships remain important, but the group broadly agreed that allowing a machine to take care of nuisance trades would enable them to handle larger, more difficult orders with more precision; which would ultimately improve returns for end investors.

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The role of the buy side trader

- To what extent automation will drive trader's performance being measured on overall trading desk P&L as well as execution quality remains to be seen, but it is guaranteed to some degree.

- As automation becomes more widespread buy side traders may find themselves spending more time monitoring and analysing systems rather than trading in the market.

- The goal of the buy siding trading desk will always be to deliver best execution, but it is clear that the definition of this is constantly evolving.

- Automation is not going to entirely replace the trader – you still need that human touch in illiquid and larger orders.

- Buy side skill sets are evolving as technology in general becomes more instrumental to day-to-day functions.

- Still a huge value placed on traders in volatile markets and an imperative to balance developing automation with the experience of traders.

- There are still some fears that automation may encourage outsourced trading desks, but automation is continuing to be seen more as an enabler than a career threat.

- Automation is part of the trader's tool kit now and in the future, so going forward we need to decide how to best use it.

Why automate anyway?

- Each firms' workflow is unique so identifying where and how you automate is different for each desk.

- Automation should be seen as a means to an end and not an objective in its own right.

- There are two elements to automation – automation of orders from OMS and automation of trading in market.

- Automation can drive revenue and reduce cost due to the flexibility it offers.

- Automation can advise you on how, when and where to trade.

- Relationships with banks are still key in OTC markets but when volumes significantly increase automation can be a big help.

- Cost saving is a hugely important driver in this new world and automation definitely has benefits.

- Automation offers a level of reassurance and a clear demonstration of best execution.

- Automation can help with more scientific algo selection and remove inherent trader bias.

- As buy side resource dwindles, reliance on vendors and counterparties is key.

- Using automation to aggregate multiple vendor data streams will streamline workflow and consolidate screen real estate, which is tight especially when working from home

Data, Data, Data

- Automation must be justified and quantitively explained which means data must be accurate and easily interpretable to a range of stakeholders.

- More sophisticated users can use data generated from automated trading systems to curate liquidity pools.

- Pre-trade analytics play a big part in measuring expectations and therefore the overall success of automated trading.

- 3rd parties can support the buy side by providing the right data and analysis to generate dynamic benchmarks.

- The issue is not just access to data but the right data. Best not to overcomplicate.

- Real time data to fuel decision making will drive innovation