



FX Algo trading - implementing solutions right through the workflow

By Alfred Schorno, Global Head of Sales and Managing Director, 360T Group



the increased use of Algos as part of an execution strategy. Institutions are recognizing the limitations of leaving large orders with the voice desks of their liquidity providers and the importance of measuring performance at all stages of the trade cycle. Changes to the structure of the market have meant reduced market maker inventories and an increased presence of short-term players forcing larger consumers of FX liquidity to re-think their approach; Algos will be an increasingly used weapon in this battle.

Regulatory change has further accelerated the need for institutions to take control of their FX execution process and show transparency throughout the lifecycle of an order. The trend we are observing requires the building of a process-driven execution policy, automation of low-value orders and the ability for a user to have full platform oversight, from inception to delivery.

An important element of this is the focus on electronic execution and

In simple terms, Algos offer slow/fast and passive/aggressive execution methodology. The most used are time-weighted average price (TWAP) or volume-weighted average price (VWAP) strategies. Leading providers tune their offerings according to the requester profile and market conditions. Active monitoring, access to liquidity across multiple venues and the addition of unique franchise access help reduce market impact and increases probability of fill. All of this is for nothing without accurate TCA and the depth

of sophistication here continues to develop from specialist firms focused on only this to more low-cost platform and provider solutions.

WHY PICK-UP HAS BEEN SLOW

Relative to Equities, why are Algos so slow in becoming part of the FX traders execution arsenal? Some of the challenges that the buy-side faces in FX include accurately booked allocations for underlying accounts, broker list limitations, credit risk concentration and the ability to trade orders to a specific tenor rather than just spot. In a non-cleared world all of these need to be taken into account, a core difference from other asset classes. Considerable thought needs to go into implementing an effective solution right through the workflow, not just the execution. We spend a lot of time helping our clients make sure the lifecycle of an order is not broken to achieve this desired outcome.

A longer-term solution to the difficulties caused by bilateral credit may be on the horizon. In Europe the clearing of FX products by central counterparties is slowly becoming a realistic option to help address some of these workflow problems that the buy-side faces, not just when executing Algos.

CONCLUSION

As the buy-side faces a heavier burden to ensure execution is at a high quality, driven by client-demand, regulatory and FX Global Code of Conduct requirements there is no question that algorithmic execution in FX is going to play a part. The goal for 360T as a platform provider and the sell-side as algo builders is to continually enhance functionality and services to help meet these demands from both a workflow and structural standpoint – a goal we are actively working to meet.



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