

Time to Embrace the Data Revolution

The winds of change have begun to blow in the world of FX swaps, and as a result it's becoming increasingly apparent that knowledge — in the form of accurate market data — truly is power.

Today, whether pricing or hedging FX swap trades, banks are still relying on market data feeds that are merely indicative of where the market is. Why?

One reason is because in today's FX swap landscape, voice brokers still dominate. This domination of swap flows within the voice broker space inherently limits both the quality and reliability of swaps market data.

By virtue of the majority of interbank swap executions being carried out over "voice", audit trails of quotes and executions are often delayed, resulting in the slow data entry of "Live" rates by voice brokers, which can make market data unreliable. Where automation of quotes is present over the request for quote (RFQ) process, the ability to automate electronic hedging remains limited. All of which contributes to the unreliability of incumbent swap market data feeds.

Another reason why these feeds are not accurate is because even when FX swaps are executed electronically, it is via this RFQ mechanism rather than a streaming price. This is problematic because this represents only a short window view of a price, which is often opaque in its very nature as prices are quoted specific to the requesting counterparty based on their credit, profile, behavior and associated yield. What happens around either side of this RFQ window? With no availability of streaming swap data around the trade, you simply don't know.

The fact is that unreliable data leads to losses, but in order to improve the reliability of the data two things need to happen. Firstly, the feedback loop needs to improve, and secondly, we need to speed up price discovery.

That's exactly why we built our Swaps Data Feed (SDF), which is integrated directly with the pricing engines at 20 top FX banks. Circumventing the existing RFQ pricing feeds on the 360T platform, the SDF subscribes to the house price from each of the participating banks. These house prices, commonly known as the bank's core price, ignore credit or client specific spreads. Each source feed does, however, include factors such as liquidity provider (LP) inventories and market view.

Engineered to be representative of where the swaps market is and featuring functions within the aggregation and sanitisation methodology, such as a minimum number of contributors per data value and removal of



widest spreads, we ensure that the final outbound rate is accurate, representative and reliable. Once these feeds are aggregated, the SDF then constructs a mid-market price that is completely disassociated with the aforementioned factors that dictate RFQ pricing. This gives consumers an accurate picture of where the FX swaps market is at any given point in time.

The SDF includes G10, EM and NDF currency pairs and we continuously subscribe to up to 60 tenors out to two years per currency on an ongoing basis from the 20 contributing banks. Anytime the rates from those banks are updated, the whole feed recalibrates because this is not just a snapshot of the market, it's a live representation of the pricing from these banks.

Because 360T's market data feed standardises more tenors than most market data feeds, we are able to provide a smoother, better informed curve. To this point, SDF includes key dates such as central bank meetings, IMM's, month end/beginning and quarterly turns all standardised within the curve, which makes it truly unique.

The onward benefits of this are obvious — having more accurate information at their fingertips enables institutions to make better, more informed decisions around FX swaps execution and pricing. Such information plays into a particularly exciting trend; streaming swaps market data

will now allow banks to optimise their hedging workflows electronically.

In addition, the SDF forms the basis of 360T's new FX swaps trading platform; 360T MidMatch. Members will be able to submit their interest to buy or sell at the prevailing mid, in a semi-lit book, which will be available to the consumer on the API or on the GUI. Members will also be able to post visible bids and offers into a limit order book, just like you would on a spot FX platform. The crucial advantage that this provides is the creation of a real-time feedback loop, further improving the data available in the swap space.

The future of trading and investing will be data-driven, and for the FX swaps market, the future has arrived. Simply put, whether pricing electronically, distributing electronically or even hedging electronically, better data leads to better trading decisions. We've seen this to be true elsewhere, particularly in the evolution of FX spot, and the firms that will be most successful in the FX swaps market going forward are the ones that embrace this fact.



Viewpoint

This viewpoint was written by Lydia Solinski, Head of Market Data, 360T.