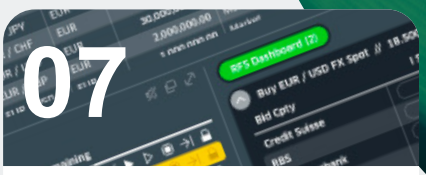
DEUTSCHE BÖRSE GROUP

FX Spotlight

Global Views, Local Insights

STATE OF THE INDUSTRY

What Comes Next?



Issue 01 / 2021

WHAT COMES NEXT?

Carlo Kölzer, CEO of 360T Group and Global Head of FX at Deutsche Börse Group, reflects on the lessons of the past year and explains why he's optimistic about the future of the FX industry.

Carlo Kölzer, CEO of 360T Group

I think it's safe to say that the past year has been one that nobody in our industry will ever forget. It has required huge adjustments on behalf of everyone, and has done so along multiple different dimensions.

Personally, the pandemic altered our everyday lives as people suddenly found themselves working remotely, often from home. For many people their workday now involves negotiating with their partner over who gets what space in the apartment for conducting calls or finding ways to keep children engaged with school classes taking place over Zoom. And then there was the strange experience of spending both workdays and vacation days in the same room.

Professionally, we have all had to adapt to not going into our office and working alongside all of our colleagues each day. While some people are perhaps relieved to avoid their traditional commute, phrases like "Zoom fatigue" have entered the business lexicon and it has been more challenging, but also essential, to maintain team spirit in such a decentralised environment.

And then there is the impact that the pandemic has had on the FX market itself. In March last year we saw volatility explode, and trading volumes skyrocketed as a result. Overall, I think that it's fair to say the FX industry did a good job of absorbing all this — yes, spreads naturally

widened out but they soon tightened back up and the market functioned as it was supposed to throughout this entire period.

Then over summer the markets went dead quiet. The expectation was that volatility would pick back up in the autumn ahead of the US presidential elections yet this never really materialised. But then at the start of December things became more volatile again, despite there being no obvious driver for this. Suffice to say, 2020 was an unpredictable year from a market's perspective and, judging by what we've seen so far in the first quarter of 2021, the same might prove to be true of this year.

And this perhaps naturally prompts a question that will be crucially important for the FX industry as a whole going forward, namely, which of the trends that have emerged over the past year are likely to become permanent features even after the pandemic (hopefully) subsides globally?

AN EXCITING YEAR FOR MARKETS

Well for starters, I think that we'll continue to see more business being done in a remote manner. The days of flying halfway across the world for just a handful of meetings might not exactly be at an end, but this type of business travel will certainly decrease now that everyone has gotten comfortable with interacting and operating remotely.

I anticipate that there will be more work done remotely in our company and, importantly, I think the same will be true of our clients. As a result of this there will be an even greater need for high performing, business-critical technology that can be accessed remotely while still providing comprehensive audit trails, instant reporting, deal confirmation, automation and no-touch trading, etc. From a 360T perspective this definitely puts wind in our sails.

There will be an even greater need for high performing, business-critical technology that can be accessed remotely.

But there is a flipside to this trend as well. It's harder for firms to develop new concepts and business models, teamwork becomes more cumbersome, sell-cycles become longer, it is harder to build trust-based relationships, there are less exchanges of informal information and creativity can suffer as a result.

The markets themselves will also continue to be dominated by the pandemic for the foreseeable future. The various ways in which different countries deal with the fallout from the crisis and roll out vaccination programmes are likely to have an impact on their home currency. Thus, we expect more excitement in the FX market in general.

Moreover, the impact of the pandemic on enterprises and economies is becoming increasingly visible, and the "K-shaped" recovery that was talked

about last year will become more and more obvious. Some countries, companies and individuals will bounce back very strongly and others will do the opposite. Spreads will widen as a result. All of this will bring quite some swings to financial markets, including FX.

UNLOCKING OPPORTUNITIES

There are certainly some areas where we're starting to see a reversion towards normalcy though.

For example, whilst we had numerous success stories taking new customers live during the pandemic, there were many firms who effectively pressed pause on implementing new technology due to the uncertain outlook for both financial markets and their businesses. This mentality has now changed as many firms realised that they needed to press ahead with technology enhancements in order to avoid falling behind their peers. In addition to this, the vaccine rollouts in multiple countries have offered hope that an end to the pandemic is within sight, enabling firms to once more effectively start planning for the future.

We're also seeing trading activity in certain geographies returning after a period of dormancy. In some countries trading almost ground to a halt because of the lockdowns that were implemented there. Now, we're seeing a rebound of activity and this bodes well for FX market participation and offers the potential for unlocking new opportunities across multiple different geographies and client segments.

There are also now huge opportunities around a number of our nascent products which we've been developing and suddenly seemed poised for a breakout period of adoption.

TIME TO SCALE

In terms of technological development NDF trading continues to follow the roadmap created in Spot FX, and as a result we know that the next step in the evolution of this market is for liquidity to grow in the streaming of the most liquid products. That's why today we offer streaming prices for USD/INR, USD/KRW, USD/TWD and USD/BRL NDFs, with the potential to add more currency pairs based on client requests.

I have long maintained that FX Futures will grow to become a larger proportion of the overall market, and recent trends have only reinforced my belief in this. Now that we have developed listed products on Eurex Exchange which offer all the capital efficiencies of traditional FX Futures and the flexibility of OTC contracts I think that the case for these products is now very compelling.

And the attraction of listed FX products will only grow once more firms become subject to the Uncleared Margin Rules (UMR) in September.

UMR implementation was delayed last year because of the pandemic, but we're unlikely to see this pushed back again. As a consequence, for many more buy-side firms it will become more efficient and cost-effective for them to centrally clear at least parts of their FX portfolios. This will be a driver for both our clearing house and FX Futures business, given that the latter of these enhances the capital efficiencies delivered by the former.

I'm not sure that I can call our suite of market data products a "new" business anymore now that it is *winning major industry awards* and these products are being widely adopted within the FX industry. However, as a firm we are — relatively speaking — still new players in the market data space, but it is an area that we have made heavy strategic investments in and as the FX markets continue to become more data-driven I think that demand for the unique data products that we have created will continue to grow exponentially.

And finally, I am very optimistic about the prospects for our MidMatch platform. The drivers pushing more interbank FX Swaps trading towards electronic venues have become too strong for the industry to ignore and the *award-winning innovations* underpinning MidMatch mean that it will become the logical venue of choice for this product segment.

The drivers pushing more interbank FX Swaps trading towards electronic venues have become too strong for the industry to ignore.

There is a certain irony in the fact that as the FX industry gets back to normal, or at least settles more into a "new normal", the adoption of these products will accelerate, ultimately leading to more change. But change is good – each of the aforementioned products are designed to make the FX market more robust, more efficient and more transparent and this is why, having endured a challenging period for everyone, I feel very optimistic about the future and I hope my optimism is shared by those of you reading this publication.

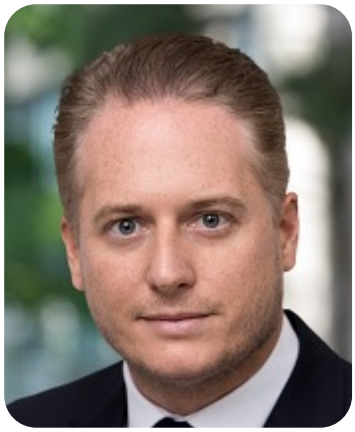
Link list:

- *Best vendor for dealing technology*
- *Best ECN/MDP forwards/Swaps & best Market Data Provider*
- *360T´s winning formula of build, load and scale*

Mythbusting Around Automation?

Sebastian Hofmann-Werther, Head of EMEA at 360T, addresses some of the remaining myths around FX automation.

Sebastian Hofmann-Werther
Head of EMEA at 360T



Despite everything that's happened since the start of the pandemic and all the adjustments that FX market participants have had to make, one of the biggest themes from my perspective has actually been a continuation – or to be more accurate an acceleration – of an existing one. And this is the drive amongst institutional and corporate clients to automate more of their FX workflows and trading activity.

Last year we published articles on *why more firms are pushing for greater automation*,

> **The key to building a truly successful automation strategy is a deep and ongoing dialogue**

how they can *differentiate between the different automated trading tools* available and *what lessons we learnt* about automation during the pandemic. So really, what else is left to be said on the subject?

Well, it occurs to me that there are still some existing misconceptions within the industry broadly regarding automation, which is why I thought it might be worthwhile for me to take this opportunity to do some mythbusting.

MYTH: AUTOMATION PUTS TRADERS OUT OF A JOB

To be honest, this is something that I've started to hear less over the past 12-18 months as more firms have started down the path of implementing automated trading solutions and people have seen that this doesn't necessarily equate to the elimination of traders.

This is because automation can't replicate the abilities of a trader, but rather aims to enhance them. This technology simply enables traders to be more productive and execute in a more efficient manner. Or, put another way, it helps unlock the real value of a trader because they have to spend less time on the desk staging and executing simple trades and can spend more time focused on the trades that actually require their expertise and skills.

MYTH: AUTOMATION CREATES COMPLIANCE CHALLENGES

In today's financial market legal and compliance concerns are, with good reason, always front of mind. However, automation actually helps rather than hinders on this front for a couple of reasons.

Firstly, the rules-based nature of automated trading means that these systems by definition cannot break the rules that are set for it, which reduces the potential scope for human errors that might contravene industry and company best practices and compliance rules. And secondly, such a rules-based system creates a transparent audit log of not just what happened on the trading desk, but also why it happened. This is because the underlying rules themselves can be accessed and viewed by the relevant staff for oversight, which then explain why a particular action was taken.

MYTH: AUTOMATION MEANS LESS HUMAN CONTROL

Intuitively, we feel that if a piece of technology is doing a task for us then we fundamentally have less control over that task, and the same is true of traders. But the reality is that because the rules which dictate automated trading systems are determined by humans they're still in full control, it's simply the execution of those decisions that is done for them.

Think of it this way: if you set an air conditioner to automatically keep a room at a certain temperature, do you have less control than if you were constantly pressing the button up and down yourself to maintain that steady temperature? No of course not, because at any point you could decide that you want it hotter or colder and adjust the settings accordingly. The decision is still yours, it's just that the repetitive manual effort needed to execute it has been removed.

And just as you could turn off the automatic temperature setting at any point in time, so too can traders step in to take control should they wish to. Automatisation is not an irreversible either/or decision and the trader always remains in full control of the extent to which it is deployed.

MYTH: AUTOMATION REQUIRES A HEAVY TECHNOLOGY LIFT TO IMPLEMENT

When thinking about the technology implementation required to automate FX trading activity it's important to remember that automation isn't an all-or-nothing proposition. Quite the contrary, it's a journey that is typically taken step-by-step as firms become more comfortable with the technology and they are able to validate its effectiveness at each stage of this journey.

When people think about "automated trading" their minds often drift naturally towards Algos or no-touch execution, but there are actually significant benefits that can be derived from automating elements of FX trading workflows even if they choose to continue executing manually. It is important though that firms looking to automate all or parts of their FX trading partner with technology providers who have teams in place with experience of implementing these types of tools as they are better able to take on any technology lift that is required on their side.

MYTH: AUTOMATION COULD NEGATIVELY IMPACT BANK RELATIONSHIPS

Both institutional and corporate clients rely on their bank partners for a variety of different products and services and so it's understandable that there is some concern that implementing automated trading solutions could impact this relationship. However, in many different conversations that I've had with these firms they have emphatically said that this is not the case. Instead, they found that implementing such solutions meant the banks stopped simply quoting prices to them and started to focus their attention on providing additional value-add services instead.

Our mantra at 360T has always been that technology is an enabler of relationships, not a replacement for them, and we've seen this borne out time and time again when clients adopt e-trading solutions and subsequently tell us that now they spend less time talking to their banks about pricing vanilla trades and are instead having deeper, more interesting conversations as a result of introducing new technology.

CONCLUSION

Hopefully some of the above will prove helpful to the many firms that are currently pondering if and how they should start their own journey towards automating more of their FX trading activity.

Perhaps the last thing I would add is that our experience working with our various industry partners has taught us that everyone has unique elements to their workflows. Because of this, we have learnt that the key to building a truly successful automation strategy is a deep and ongoing dialogue to understand precisely where this technology can have the most positive impact for that specific trading desk.

Link list:

- *eForex: Automation and Volatility: What did we learn?*
- *eForex: Automated FX Trading: Getting beyond the buzz*
- *Using Technology to Target Treasury Pain Points*

Change is Afoot in the FX Industry

Matt O´Hara
CEO of 360T Americas

Matt O'Hara, CEO of 360T Americas, highlights some of the forces that are changing and shaping the FX industry.

A lot has changed over the past year. On the surface of things, this statement might sound obvious to the point of being ridiculous but I want to dig a little deeper past the more conspicuous changes (such as the fact that you might be reading this on your sofa instead of at your office desk), and focus in specifically on some of the changes that have occurred within the FX industry itself.

Just as the pandemic has forced people to shift their daily interactions onto digital platforms, so too has it hastened the ongoing adoption of web-based trading solutions, avoiding the need for a heavy installation or a physical terminal and ensuring that trading operations can run uninterrupted even in a decentralised working environment.

Algos, which were still in the relatively early stages of adoption amongst buy-side firms prior to the pandemic, have become more widely utilised as they proved themselves to be an effective means of executing trades even during the period of very high volatility we witnessed as the pandemic first started disrupting business activities.

In fact, the need for greater automation on FX trading desks more generally has been, and remains, a big theme for a number of reasons. One recurring issue keeps cropping up in conversations with buy-side firms of all sizes is that they're being asked to handle larger FX flows with the same headcount, and that as a result they're looking to drive efficiencies by automating more of their workflows.

The onset of the pandemic has only exacerbated this trend as traders without access to a professional trading setup at home were forced to reach for every tool available to try and enhance their productivity. In addition, as volatility spiked in response to the pandemic at the end of Q1 last year, some asset managers found that orders which would have normally taken a matter of minutes suddenly needed to be worked throughout the course of an entire day — in that kind of environment it's crucial to automate as many processes as possible in order to free up traders to focus on the more complex trading activity.

ACCESSING THE RIGHT DATA

Of course, effective automation and Algorithmic trading relies on having good data, and this is another area where we've seen big changes over the past 12 months.

As Spot FX market data has become an increasingly commoditised product, we've seen growing demand from market participants for an accurate, independent forwards curve. This became particularly acute following the aforementioned volatility as it highlighted the importance and value of having an exact picture of where the market was trading, even as spreads blew out wide.

For real money firms in particular this also has implications in terms of their ability to achieve and demonstrate best execution to their stakeholders and investors — without reliable data it is impossible for them to effectively benchmark their performance when trading non-Spot instruments.

Data more generally has also become a huge focus for compliance reasons during the pandemic. With staff working from home it is harder for firms to maintain the level of oversight traditionally needed to meet their compliance and best practice requirements.

Over the past year we've also seen an evolution with regards to industry demands for data-related services. For example, the effect of information leakage on the overall cost of trading has been a big talking point amongst the buy-side in recent years

and as a result we see these firms now looking towards their third-party platform providers to help them understand, in a quantitative manner, how they can manage their liquidity pools more effectively to reduce their market impact when executing FX trades.

THE COMPETITIVE LANDSCAPE

Even away from the data aspect, service levels have been under heavy scrutiny over the past 12 months. It's when markets are stressed and firms need to get trades done that they rely most on their technology partners, and they remember who stepped up over the past year and — crucially — who didn't.

I've had conversations with a number of senior figures in the industry who have expressed frustration at the decision taken by some of their partners to offshore their support functions, reducing their effectiveness and availability.

A common talking point in these discussions was how technology providers can differentiate themselves by being proactive and anticipating the needs and challenges of their clients rather than being simply reactive and waiting for the client to call them with a problem that needs addressing.

Another big change that hasn't gone unnoticed in the FX industry is around the competitive landscape between trading venues. The trend of exchange groups acquiring OTC FX platforms has been well documented, but these deals have been occurring over the span of half a decade now and as a result these platforms find themselves in very different situations.

Another big change that hasn't gone unnoticed in the FX industry is around the competitive landscape between trading venues

The platforms that were acquired towards the beginning of this five-year period found themselves starting 2021 as a cohesive, fully integrated organisation with a clear vision, strategy and business plan to execute against.

As a result, they're been better placed to continue innovating and growing their client footprint than the firms involved in the later deals, who saw integration work and regulatory approvals delayed, which in-turn has impacted their ability to deliver new products and services to their client base.

While the unusual circumstances of the past year have certainly driven some significant changes in the industry, there are actually signs that the pace of change will only continue to accelerate.

Projects that were put on hold in 2020 have been given the green light to continue, regulatory initiatives that were delayed will come into effect and people have learnt from recent experiences that implementing new technology doesn't necessarily require a heavy lift on their part, and can be done efficiently and effectively even in a remote fashion.

And as the history of the FX market has taught us time and time again, the firms that will be the most successful going forward are the ones able to embrace the coming changes.

Link list:

> *Investment Strategy Implementation: FX Matters*
> *P&L: The Translation Layer in FX*
> *Electronic FX in Latam: Gearing up for a decade of growth ahead*

Market Data: Quality In, Quality Out

Andrew Jones, Managing Director of 360T APAC, explains why accessing high quality data is becoming ever more important to FX market participants.

Andrew Jones
Managing Director 360T APAC

In a world where technology is an increasingly ubiquitous part of our lives, there is a growing recognition of the value and importance of the data generated by this technology.

For instance, it's become almost something of a cliché at this point to talk about how "data is the new oil" and we've seen major consultancy firms all over the world pumping out endless research reports in recent years talking about the "data economy" that has now emerged.

In this regard FX is no different, as an ever-larger portion of trading activity takes place across a range of different electronic platforms, we've seen firms become more focused on using the data generated from these platforms to improve their trading.

However, we've also seen that more data doesn't necessarily equate to better information, and as a result it's become clear that the quality of data itself is vitally important.

More data doesn't necessarily equate to better information…. the quality of data itself is vitally important.

But this of course begs the question, what exactly constitutes high quality data?

And the simple answer is: accuracy.

Bearing this in mind, as we survey the FX landscape there is a very clear disparity across different product segments in terms of the quality of market data available. Accurate Spot FX market data can be widely accessed from various different sources, hence the tendency within the industry to refer to it as a "commoditised" product. By contrast, there are far fewer sources of accurate market data available for other product sets.

For example, many major Swaps data feeds produce a forwards curve that is largely based on contributed rather than tradable rates, and as such it is only indicative of where the market is at any specific time. The result is a curve that is interpolated from one month to the next and then these indicative rates are conflated and merged with an average taken from there. All of which means that none of these feeds are offering a truly representative sample of the 'real' curve.

A GAME CHANGER

This is why our *award-winning Swaps Data Feed (SDF)* has been such a game changer. It is directly integrated with the pricing engines at more than 20 top FX banks, subscribing to the house price of each. These house price feeds, which are devoid of credit considerations or client specific spreads, are then aggregated using a very careful sanitisation methodology to construct an accurate mid-market price. It is also unique because it includes rates for key dates such as central bank meetings, IMM's, month end/beginning and quarterly turns.

This is all well and good, but such data only has value if it can be deployed to help achieve a specific outcome so let's have a quick look at just a couple of potential use-cases for it.

To begin with, simply having an accurate reference rate is valuable to both buy-side and sell-side firms. For the former, being able to see where the curve actually is, as opposed to where the market is being skewed to them, enables them to more effectively assess the

liquidity being shown to them and benchmark their execution with more precision.

This is particularly important in a world where buy-side firms are under increasing pressure to clearly show that they achieved best execution. Although the regulatory burden on buy-side firms isn't as heavy in APAC as it is in Europe or the US, it is increasing quickly, and subsequently we're seeing more of these firms looking for accurate data that addresses their non-Spot activity.

On the sell-side we're seeing more demand for this data to help market makers improve pricing across a broader range of currencies. In the banking world there is a lot of specialisation when it comes to FX. Typically, institutions are particularly strong in a select number of currency pairs, however their clients want (and expect) them to price many different currency pairs. Having an accurate source of data like the SDF becomes essential to enable them to accurately and efficiently price currencies outside their core competence.

Many more sophisticated participants in the FX market are accelerating the utilisation of data within their Execution Management Systems (EMS) not only to enhance their automated trading activity and outcomes, but also to create a better tolerance checking methodology. This allows them to ensure they never execute more than a pre-determined amount from market-mid, even when engaging in low-touch or no-touch trading.

There's an important compliance angle to this as well. This data can be fed through firms' middle and back offices to become the golden source of historical benchmark data which can subsequently be used for audit or regulatory purposes. The list of different use cases for high quality, accurate Swaps market data goes on and on, but suffice to say there are numerous benefits that can be derived today from accessing it.

SIMPLIFYING DATA AGREEMENTS

Additionally, in many instances FX market participants are pushing to simplify their data licensing agreements. The major data providers have traditionally sold licensing agreements to market participants by country and by specific operations within each firm. This has sometimes left firms in a position where their front, middle and back office operations have all had to get the same license, and then this process has to be repeated across all the different regions they operate in. Conversely, other providers are unbundling 'all-you-can-eat' cross-asset data deals resulting in large cost upticks for their consumers.

Consequently, at 360T we offer a global product-specific enterprise license, meaning that with one

licensing agreement clients get access to a specific suite of data products that can then be consumed throughout their entire global operation.

Large tier-one liquidity providers have typically been very advanced in their ability to consume vast amounts of data, and manipulate and sort it internally, but now we're seeing growing sophistication filtering down into the broader universe of FX market participants.

Certainly, in the APAC region there is a very experienced and skilled core of technologists within institutions, whom are able to utilise market data to effectively optimise trading outcomes for their organisations. This trend will continue to accelerate.

Ultimately, regardless of how technologically sophisticated a firm is, and whatever the end use-case for their data, they still require high quality — by which I mean accurate, and timely, market data. Because best quality in always equates to best quality out.

Link list:

> *Podcast Episode 23: Market Data Special with Digitec*
> *360T Wins Industry Awards for FX Forwards/Swaps and Market Data*
> *eForex: Time to embrace the data revolution*

DEKA INVESTMENT

Stefan Brandau, a Senior FX Trader at Deka Investment, talks about the firm's ongoing drive to automate more of their FX trading activity and reflects on the lessons of 2020.

Stefan Brandau
Senior FX Trader at Deka Investment

360T: You've been using the 360T EMS to automate parts of your FX business – specifically which parts of your workflow have you been focusing on?

Stefan Brandau (SB): So, we were looking for an EMS that would be effective at automating our low-touch orders, which is why we chose 360T. In particular, we use the block function in the EMS to reduce our trading volumes by netting down positions auto-matically. This benefits us because we can execute these orders without touching them and we see tighter spreads in trading.

360T: What were the main drivers pushing you towards increased automation?

SB: It's really about making the trading desk more efficient. There are significant operational efficiencies to be gained by automating certain functions that can be time consuming but don't offer any significant value-add, such as netting out trades. Then there's also a time-saving element — by automating our low-touch orders we free-up

traders to spend more time focusing on complex, high-touch orders where their skill and expertise can really make a big difference. Now that we're operating in a more efficient manner, we've also found that our traders have more time to spend with the portfolio managers (PMs) and can offer them additional services.

360T: That last point is interesting. At 360T we've always argued that technology enhances human relationships rather than replacing them and it sounds like this has been your experience too?

SB: Yes, I see my role as being kind of a consultant for the portfolio managers, and so do my colleagues on the cash side of the business. We give the PMs advice so that they can leverage our knowledge and skill sets when they're making important decisions. Last year that was especially important because we had a very unusual situation due to the Covid-19 pandemic, as we saw some significant volatility in addition to certain currency-specific challenges such as we saw with the Turkish lira. So it's always good to be in dialogue with the PMs, and increased automation has given our traders more time for this.

360T: Do you think that the drivers that you mentioned towards greater automation have become more urgent in the current working environment?

SB: Yes, absolutely. The past year has taught us that it's really important to implement efficient processes within your FX trading, and automation lets us do that by removing the need for manual processing. I would say that last year, and especially considering the volatility we saw in the early part of the year and the work environment, it was a big advantage for our traders to be able to focus their efforts more on our high-touch orders.

It was a big advantage for our traders to be able to focus their efforts more on our high-touch orders

360T: Are there plans for further automation in your FX business and, if so, where?

SB: To be honest, we're only just getting started in terms of automation. Right now the emphasis is on currency pairs where there are large volumes being executed with tight spreads and the next stage for us is to look at how we can improve the automation of less liquid currency pairs. For this we will need to implement various rule sets within the EMS to ensure that trades are only executed when certain conditions around liquidity, spreads, etc., are met.

360T: From a compliance perspective, does automation help or hinder your business?

SB: That's an important question and I would actually have to say that it definitely helps us more than it hinders us. That's because we set the rules within the EMS and then these will always be adhered to exactly, unless we change them.

So there's less room for operational error that might

contradict compliance rules and also it makes it very clear and transparent — you can literally look at the list of rules that will determine how and when a trade is executed.

360T: 2020 was an unusual year to say the least, what are the key lessons you would say you have learnt during the pandemic?

SB: As I mentioned before, the events of 2020 proved how important it is to have efficient processes in place on the trading desk. By doing this, you make it easier to react to a special situation like we saw last year.

In this regard we were very fortunate at Deka Investment that we had already implemented clear processes and so we have been able to adapt very well. If I'm completely honest with you, I was a little surprised at how seamlessly we were able to transition to this new environment, I've been working from home since March of last year and everything has continued functioning as it should.

360T: And what about the markets themselves? Everyone got sent home just as volatility exploded, do you think the FX market continued to function as it should?

SB: Yes, I do. Of course, there were a few days when liquidity was very bad but that is not surprising given the circumstances and liquidity and spreads subsequently returned to the levels they were at before. In fact, we only had a few weeks until the markets themselves were back to normal.

EMBRACING DATA DEMO-CRATISATION

Colin Chau
Head of Analytics at 360T

Colin Chau, Head of Analytics at 360T, talks about making high-powered data analytics available to a broader cross-section of the FX industry.

In the past few years we've really seen the FX industry turn its attention to how better sources of data, combined with increasingly sophisticated analytics around that data, can help firms improve their trading.

Yes, there has been a subsect of the industry — usually alpha-seeking quantitative trading firms — for whom data and analytics has always formed a crucial part of their edge in the market. They have long since developed complex and advanced tools for interrogating different data sets, with the results of this analysis being fed back into their trading process so that it is constantly enhanced and refined.

But for many firms the costs and expertise necessary to implement such an approach has traditionally meant that it hasn't been practical or feasible for them to emulate it. Indeed, for many there simply didn't seem to be a great need for them to get into the weeds of data analytics in such a manner. That calculation has been slowly shifting in recent years though.

On the buy-side there has been a growing pressure to both achieve best execution for their investors and shareholders and then clearly demonstrate to them exactly how they did this. Consequently, we've seen a huge emphasis on utilising transaction cost analysis (TCA) tools and a growing focus on using analytics to reduce information leakage and market impact when executing FX trades.

Amongst liquidity providers we've seen competition become even more fierce, with some sophisticated proprietary trading firms becoming significant players in this space and the margins between winning and losing a trade compressing significantly. In this type of environment having access to high quality data and analytics tools can be essential for gaining and building-up market share.

A NEW MENTALITY

While the whole FX market is becoming more data-driven it is simultaneously becoming easier and more affordable for firms to access such data and the tools necessary to make effective use of it. And this is where we see the whole concept of 'data democratisation' coming into play.

At 360T we have always created highly bespoke analytics solutions for our clients in response to their specific needs. But now what we're doing through our new 360T Vantage platform is scaling this up to offer standardised versions of these tools to our whole client base across our entire diversified portfolio of products.

This means that even the smallest firms we work with will have the opportunity to access high-powered data analytics tools that were developed and designed for some of the most sophisticated players in the FX market today.

We're doing this because we can see that the industry is trending away from the old mentality of simply producing reports on trading activity and towards giving firms the tools that empower them to understand how they can improve their trading outcomes.

> **We exist in a very data rich world nowadays, but many firms simply don't have the time or the tools to effectively sift through all this data.**

We exist in a very data rich world nowadays, but many firms simply don't have the time or the tools to effectively sift through all this data. And that's exactly where 360T Vantage comes in.

TOO MUCH DATA?

In fact, this is part of the challenge for market participants today — there are more sources of market data available to them than ever before in the history of the FX market, while they have liquidity providers, third-party FinTech firms and trading platforms that are all offering analytics products around this data.

But we've heard from some firms that they are reluctant to partner with third-party FinTech providers because they are understandably nervous about sharing their data with them. This is because these unregulated FinTech firms are not subject to the same level of scrutiny and oversight as regulated entities who have very strict rules on how data must be handled and protected at all times. Additionally, the fact that the many successful FinTechs are often acquired by larger organisations can give pause for firms concerned about where their data might ultimately end up.

Liquidity providers, meanwhile, can only provide data from their side of the market and thus it is inherently limited. On top of this some firms are (rightly or wrongly) skeptical of the analytics provided by liquidity providers because they obviously have an incentive to encourage buy-side firms to continue trading with them.

Thus, we would argue that trading platforms are the natural place for firms to access data analytics. They are able to provide a comparative view of the market, have no incentive to encourage trading with any particular counterparty and are able to keep all of the data siloed in one protected location. It is also simply more efficient for firms to be able to access all the analytics needed to drive their trading activity in the same place where they are executing those trades.

THE NEXT STEPS

As we continue down this path of data democratisation, the big question is: where do we go from here?

Now that these analytics tools are being made more widely available, I think that one of the next steps is to improve how firms access and interact with them.

Rather than bundling up all the analytics into one package, firms want to be able to pick and choose the services that are relevant to their trading activity and execution goals. Therefore, it makes sense to have more of an app store type model where users can subscribe to the different analytical tools available.

A final point worth making here is that the democratisation of data and analytics will lend itself to artificial intelligence and machine learning tools. While this type of advanced technology might still be a way down the road for many market participants, having access to more sophisticated analytics is the first step towards it.

FX SWAPS: TIME TO DO THINGS DIFFERENTLY

Simon Jones
Chief Growth Officer at 360T

Simon Jones, Chief Growth Officer at 360T, talks about how the firm's new MidMatch platform is set to fundamentally improve FX Swaps trading.

As a product segment FX Swaps have followed a very different development trajectory compared to the Spot market.

Spot FX long ago enjoyed an e-trading revolution, when large amounts of trading shifted onto a variety of new platforms that popped up and the advent of prime brokerage services suddenly meant a much larger universe of participants were able to access the professional FX markets.

Electronic trading made price discovery much easier and simultaneously created a whole new world of data around Spot FX, which in-turn opened the door to new products and services, such as Algo trading and improved transaction cost analysis (TCA), that have since become commonplace in the industry.

And while all of these transformative developments were occurring in that product set, FX Swaps trading remained largely unchanged. There were a number of factors which caused this inertia; the majority of FX Swaps trading activity is conducted by banks, margins on these products are low, there has historically been a paucity of data available for broken dates, access to this market for non-bank market makers is challenging and these products are used as a funding mechanism rather than for speculation. As a result, many inefficiencies in this market have largely been tolerated by its participants.

Now, however, things are starting to change.

Pressure has been building to upgrade and improve the infrastructure supporting FX Swaps trading for some time. New capital regulations introduced in recent years have shifted the focus towards funding and liquidity needs, with Swaps being pushed into the limelight as a result.

Additionally, the most recent data from the Bank for International Settlements (BIS) shows that average daily turnover of Swaps products ($3.2 trillion) dwarfs that of the Spot market ($1.9 trillion), and indeed the former is growing at a faster rate than the latter, suggesting it will only become an even larger, and therefore important, part of the overall market.

As a result of this it seems that the FX industry is finally ready to embrace innovation around Swaps, which is why we've spent the past 18 months developing and launching our 360TGTX MidMatch platform, a fully automated FX Swaps limit orderbook with mid-rate matching capability designed for the interbank market. But what specifically makes this platform so groundbreaking?

Well for starters, our fully visible limit orderbook allows market makers to stream curves out to two years, with our *award-winning Swaps Data Feed (SDF)* that we spent two years developing in collaboration with DIGITEC, acting as mid-reference for grey-book risk exchange.

UNIQUE DATA

And it's important to stress here how unique the SDF is in comparison to other market data products available today.

It offers full granularity across the curve from O/N out to two years in over 40 pairs, providing Swaps Market Data in 1,800 crosses in G10, LM and NDF currency pairs.

Whereas other Swaps and forwards data products are aggregated from a variety of sources that are only indicative of where the market is at any given point in time, our SDF is directly integrated with the pricing engines at more than 20 banks, taking pricing directly from them. In addition, the firm tradable interest from the MidMatch platform will also be a contributing input to the feed. All this data is then aggregated and sanitised to produce streaming midmarket prices that are a true reflection of where the market is at any given point in time.

And because our market data feed standardises more tenors than most market data feeds, we are also able to provide a smoother, better informed curve. To this point, the SDF includes key dates such as central bank meetings, IMM's, month end/beginning and quarterly turns all standardised within the curve.

Another innovation around our MidMatch platform is that it will offer both GUI and API trading, the latter of which opens up the door for streaming prices and auto-hedging, enabling e-FX desks to take on the risk and execution of FX Swaps. By giving banks the ability to design hedging mechanisms and automatically utilise order types that have long since been available to Spot FX traders, we're enabling them to essentially build out a new business of auto-trading Swaps.

However, the biggest challenge to automating FX Swaps is removing the manual processes from the existing credit models, and this is the final piece of innovation contained within the MidMatch platform.

Today, a trader will get a pop-up on their screen showing them an FX Swaps trade, they then need to log on to their credit system, check to see whether they can execute the trade and then go back to their other screen and click to confirm. Clearly, this model is incompatible with an automated straight-through-processing (STP) model.

CREDIT SOLUTIONS

So at 360T we spent a lot of time thinking about how we could improve the credit piece of FX Swaps trading, and as a result we've developed two solutions.

Firstly, there is a FIX API connection where we can connect directly into clients' proprietary API credit systems. And secondly, we've worked hard to develop our own limit monitor tool to offer a solution to this credit challenge. This limit monitor allows MidMatch users to manage their risk through six different risk methodologies, enabling them to build either a simple or complex ruleset which determines how their credit is applied.

Through either of these means there is no manual intervention required for the credit decision, once a trader sees a price and matches on it (notwithstanding the final credit check), the trade is done.

These three factors — a limit order book with risk transfer at mid, API trading and automated credit models — are all new innovations for the FX Swaps market that will fundamentally alter how it trades, and for the better.

And really, that's the point to stress. This isn't just a piece of cool new functionality designed to make trading FX Swaps incrementally easier for our clients, it is a completely different way to trade FX Swaps. One that is more efficient, more transparent and, ultimately, more cost effective.

These three factors — a limit order book with risk transfer at mid, API trading and automated credit models — are all new innovations for the FX Swaps market that will fundamentally alter how it trades.

Link list:

> *FX Markets: Embracing the next evolution of FX Swaps*
> *P&L: Momentum Building: FX Swaps on the Cusp of Change*

ALGOS ON THE RISE

Brendon Bigelli, EMEA Spot & Algo Specialist at 360T, explains how the firm is responding to a growing demand amongst market participants for FX Algos.

Brendon Bigelli,

EMEA Spot & Algo Specialist at 360T

One of the major trends within the FX industry in recent years has been the inexorable rise of Algorithmic trading.

Once only the provenance of the most sophisticated market participants that were able to direct sizable resources towards developing these products, we've now seen FX Algos become widely available and the adoption of them as an execution tool is subsequently increasing as a result.

This is reflected across the 360T platform, where in 2020 we saw volumes of Algo trading that were up over 50% from the previous year.

Indeed, given the rapidly growing demand for these products we have decided to launch a new Algo Bulletin that will be distributed on a quarterly basis to 360T clients and will provide market insights and information on platform developments that could help firms enhance their FX trading capabilities.

The other big Algo news from us is that we've successfully completed the migration of all the 18 Algo providers we support over to the 360T Bridge technology stack. This sounds great, but what does this actually mean for our clients?

Well, for liquidity providers (LP's) it means that they can enjoy full connectivity to the 360T Algo client base all via a single, more flexible technology backbone. For taker clients, it means that they get more functionality, usability and LP's to select from when using Algos on the platform.

Looking ahead, we plan to continue improving our support for Algo trading. Our goal in 2021 is to enhance the user experience of Algo execution even further on the 360T platforms through upgraded reporting and further customisation, along with introducing Forward and NDF Algos.

THE BENEFITS OF ALGOS

Available on both 360T Bridge and EMS platforms, Algo strategies are an execution tool that is worth considering and are available to all users. We see users of our platforms deploying Algos for a number of different reasons, such as to improve execution outcomes, increase the transparency of their trading activity or drive greater automation within their FX operations.

But regardless of the intended goal for using these products, our staff are always on hand to help firms find a solution to meet their specific needs. Today, there are more than 140 different strategies available to users of the 360T platform, with the details of each strategy available *on our webpage.*

Here is a snapshot of last year's top 10 strategies on 360T, arranged alphabetically:

Provider	Strategy
Bank of America	Whisper
Barclays	Gator BARX Peg
BNP Paribas	Chameleon
BNP Paribas	Iguana
HSBC	Liquidity Seeking
JP Morgan	FLOAT
JP Morgan	TWAP+
JP Morgan	INTERNAL TRACKER
Societe Generale	Nightjar
Standard Chartered Bank	FLOAT

To learn more about 360T's Algorithmic execution capabilities please get in touch with your account manager or our Algo specialists:

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Brandon Primack, Head of Execution Management, Americas:
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FX Media Updates

Embracing the Next Evolution of FX-Swaps

Embracing the Next Evolution of FX-Swaps – *FX Markets Magazine*

Gavin Wells, Head of Swaps Strategy at 360T, explores growth drivers in the FX Swaps market, and explains how MidMatch – the firm's fully automated FX Swaps limit order book with mid-rate matching capability – can help clients capitalise on them.

Using Technology to Target Treasury Pain Points

Using Technology toTarget Treasury Pain Points – *Whitepaper*

A big question for corporate treasurers today is: how can they expand and enhance their operations without having to increase headcount or add a variety of different, and therefore potentially cumbersome, solutions into their existing technology stack?

Automation and Volatility: What did we learn?

Automation and Volatility: What did we learn? – *e-Forex Magazine*

A breakdown of the top five lessons learnt about automated FX trading capabilities in the wake of a most unusual and unpredictable of years.

The Future(s) of FX Trading

The Future(s) of FX Trading – *Whitepaper*

Chris Callander, Head of FX Futures Sales & Trading/Client Facilitation London at Societe Generale, talks about the extent to which FX Futures can replicate the flexibility of an OTC market, the key drivers pushing buy-side firms towards these products and why there is growing demand for them regionally in Europe.

Time to Reverse the Fragmentation of FX Liquidity

Time to Reverse the Fragmentation of FX Liquidity – *FX Markets*

A look at why liquidity has become so fragmented in the FX market, and how technology can be used to reverse this trend to the benefit of market participants.

Algos in the Spotlight at TradeTech FX USA 2021

Algos in the Spotlight at TradeTech FX USA 2021 – *FX Algo News*

TradeTech FX USA returned in February, albeit in a virtual format, with the use of FX Algos once again coming under the microscope.

360T Podcast Episodes

Ian Campbell, Treasurer, TT International

Campbell talks through how technology has changed FX trading, noting that today he has many more options for handling different order types than he did in the past. The discussion then moves on to focus on liquidity conditions, the regulatory challenges associated with trading EM currencies and why the pace of innovation has slowed in FX.

Sven Schubert, Senior Investment Strategist, Vontobel Asset Management

In a forward-looking episode Dr. Sven Schubert from Vontobel Asset Management outlines both why he thinks 2021 will be a risk-on year for financial markets and that volatility could pick up once again in FX towards the back end of the year. The discussion also covers the knock-on impact to the currency markets of the new Biden administration, whether the yuan could one day challenge the US dollar as the global reserve currency and what happens to the pound and the euro now that the Brexit transition period has ended.

Kirstie MacGillivray, Head of Multi-Asset Dealing, Kames Capital

MacGillivray explains that there's no "one-size-fits-all" technology solution that is suitable for her firm's multi-asset trading and says that this is why the desk has instead adopted a "best-of-breed" model which deploys asset class specific technology to ensure the best execution outcomes. She also discusses the importance of reducing manual risk from the trading desk and how attitudes towards handling FX exposures are slowly changing amongst the investment management community.

Paul Matherne, Head of FX EMEA, BNY Mellon

The over-arching theme of this episode is the "tech-celeration" that has occurred in the FX industry over the past year as firms have been forced to adapt to new ways of operating. Paul Matherne, Head of FX EMEA at BNY Mellon, sees evidence of this trend in how buy-side firms are looking at custody, their willingness to use Algos and their desire to automate more of their FX trading and workflows. And looking ahead, he argues that market structure changes will continue to fuel more innovation in 2021.

Andrew Strasman, Principal at Totem Asset Group

In this strategy focused episode, Strasman analyses why there has been a great deal of disparity in 2020 between the returns of different trend following CTAs. He goes on to explain why FX has become a frustrating market for many trend followers and how to distinguish a relevant correlation in financial markets from a spurious one.

Peter Lewis, Founder/Director of Peter Lewis Consulting and Presenter of "Money Talks" on Radio Television Hong Kong (RTHK)

Following a contentious US election Lewis gives his perspective on what a Biden administration could mean for China and its economy. He also discusses why the People's Bank of China (PBoC) is concerned about a recent surge in the value of the yuan and the growing competition amongst APAC's major financial centres.tion in financial markets from a spurious one.

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