

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.



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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*](#)

