FX Spotlight
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EMBRACING DATA DEMO-CRATISATION

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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.

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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.