5 Key Takeaways from TradeTech FX USA 2024

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360T was a sponsor of the recent TradeTech FX USA event in Miami, delivering a keynote speech, hosting a lunchtime workshop and participating in a panel discussion over the course of the three day event.

In between these, we tried to watch as many of our buy-side friends and partners speaking up on stage as possible, here are our Top Five Takeaways from these sessions:

1. **Innovation is there for buy-side firms who want it**
2. **A Data-Driven Marketplace**
3. **The Emergence of Independent FX Algos**
4. **The Shift to T+1 is Looming Large**
5. **It's time for the buy-side to get more demanding**

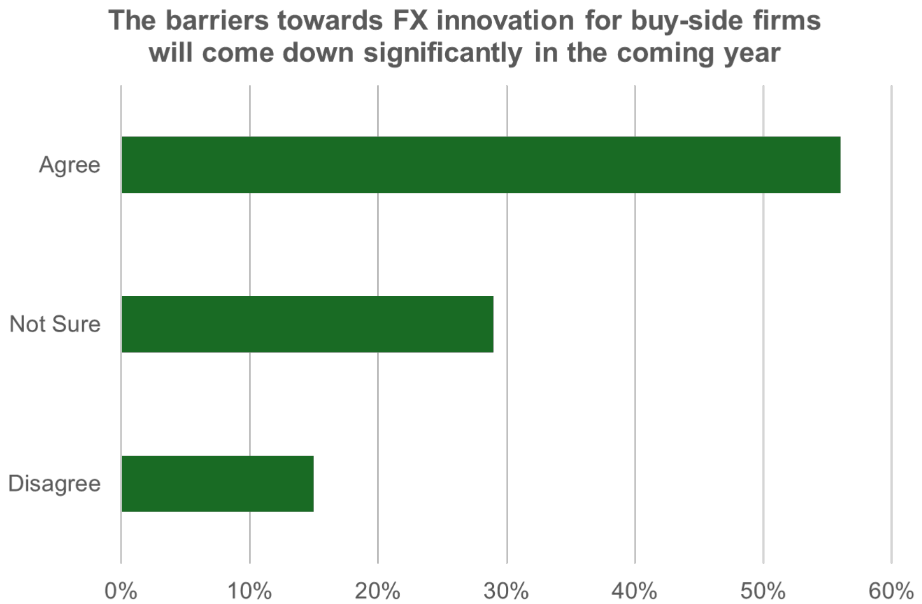
1. Innovation is there for buy-side firms who want it

During the buy-side focused "Innovation Day" before the main conference 360T Americas CEO, Matt O'Hara, asked the audience to vote on the proposition that the barriers towards FX innovation for buy-side firms will come down significantly in the coming year. The majority of the audience, 56%, agreed with it, 29% were unsure and 15% disagreed.

These results are particularly interesting considering the types of innovations that were discussed throughout the conference.

Whereas a few years ago much of this would have centred around cryptocurrencies and potential uses for distributed ledger technology (DLT), at this year's TradeTech the focus was on trade and workflow automation, advanced analytics tools, liquidity optimisation, the electronification of emerging market FX trading and algo trading. Although, naturally, artificial intelligence (AI) got a few mentions across some of the panels.

In other words, the innovations being developed are ones designed to address the immediate challenges facing buy-side firms trading FX.



One buy-side speaker even suggested that the biggest barrier towards innovation is actually the buy-side itself.

"The technology is already there, we just need to start adopting it," they said, later adding: "Another mistake that's made by the buy-side as a group is thinking about one solution and if there's a tail case which doesn't fit that one solution then they decide they can't use it. We don't have to have one solution for everything, and not every solution has to cover every case."

2. A Data-Driven Marketplace

The need for high quality market data was reiterated consistently throughout the panel sessions.

For example, the head of FX at one buy-side firm talked about automating FX their Swaps trading, explaining that the lack of accurate, independent data for this instrument makes it more challenging than in the Spot FX market.

“We’re getting to the point where we have pretty robust data, especially for broken dates, where you can actually be confident that the automation is really achieving the best execution outcome,” they said.

These comments did not even come during the FX Swaps & Forwards panel that 360T participated in, where automation and the benefits of the Swaps Data Feed (SDF) came up as a significant talking point (63% of people polled said that many attendees at the event will see a 10%+ increase in the amount of FX Forwards and Swaps they execute automatically in 2024).

Another senior buy-side representative talked about taking the data which their firm is consuming and combining it with its existing analytics tools to help them build scorecards for their various trading counterparties.

“We need data and it’s not just a check-box approach,” they added.

Again, on a panel about emerging markets and NDF trading, data was a key theme that speakers kept coming back to. One speaker said that they are less concerned with the idiosyncrasies of different marketplaces and more focused on how electronic they are as this is a prerequisite for being able to access the data which their company needs.

“We’re just concerned with data availability and consistent pricing and being able to use that data for predictive purposes,” they said.

We could give many examples, but what does this seemingly endless need for high quality data mean in practice? During 360T’s Innovation Day polling 57% of respondents said that they think buy-side firms will collectively spend more on FX data than ever before in 2024, perhaps the number should have been higher.

3. The Emergence of Independent FX Algos

In one of the more lively sessions at TradeTech FX USA this year panellists ended up discussing the benefits of bank provided FX algos versus those provided by third-party specialists.

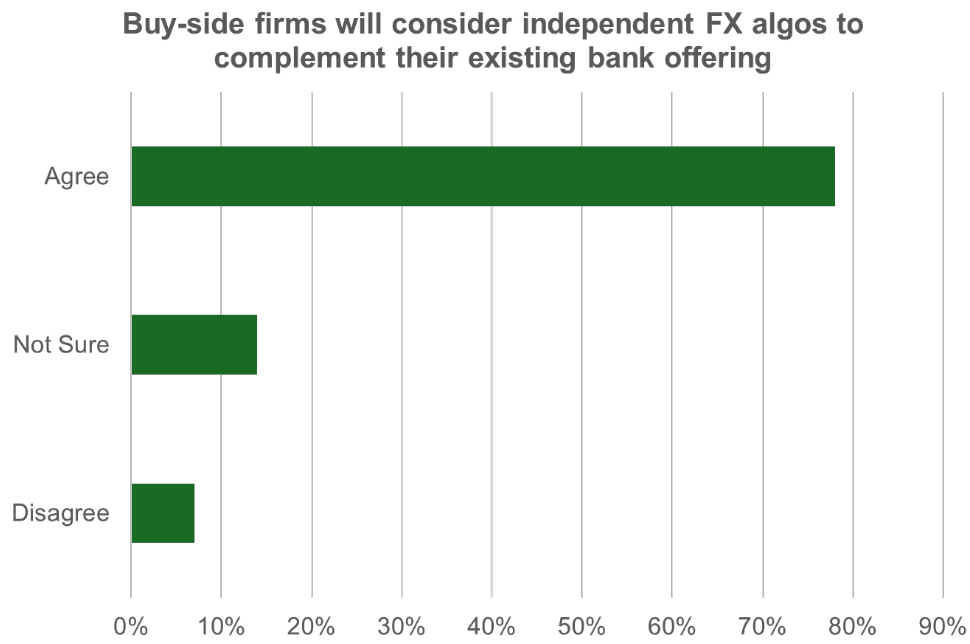
During the panel, a bank representative claimed that it can be harder for third-party algo providers to customise their products to specific client needs.

They also said that traders at the bank can deploy and effectively test FX algos before they are rolled out to clients, which can offer an additional layer of reassurance to them.

In response, a representative from an independent algo provider suggested that while banks are well placed to offer FX liquidity, market expertise and risk transfer capabilities, they are not necessarily technology or algo specialists.

“We think that whether you’re a bank or a hedge fund you should be partnering where you can with specialists in the space,” they concluded.

The reality is that bank and non-bank algos shouldn't be an either/or proposition, something that was made clear during the 360T polling on the Innovation Day when 78% of those surveyed said that they think buy-side firms will consider independent FX algos to complement their existing bank offering in the year ahead.



4. The Shift to T+1 is Looming Large

A common topic that was brought up across a number of different panels, as well as having one dedicated specifically to it, was the impact of the shift towards T+1 settlement for US cash equities, corporate debt, and unit investment trusts on the FX market.

Attitudes on the change ranged from the sanguine to highly concerned.

One buy-side speaker compared it to the Y2K fears which emerged at the end of the last millennium, when a widespread computer programming shortcut was predicted to cause extensive havoc as the year changed from 1999 to 2000.

"It went smooth, we rolled to the next day, planes didn't drop out of the sky. That's kind of how we look at it," they said.

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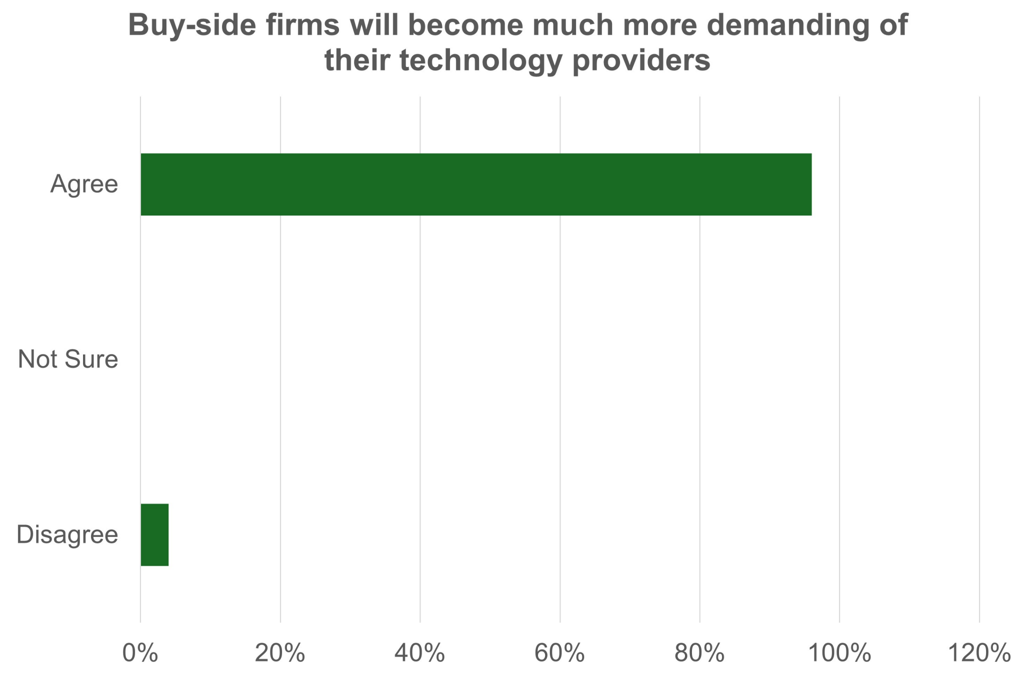
"We do believe this will cause more settlement risk because CLS and custodians have a cutoff so more trades will settle gross, and then there's the higher interest rate environment so the fail costs are very high," said the head of FX at one asset manager.

This looks set to be an inescapable topic in 2024.

5. It's time for the buy-side to get more demanding

The most one-sided response to 360T's polling questions came when we asked the audience if they agree that buy-side firms will become much more demanding of their technology providers this year. Just 4% disagreed with the statement, 96% agreed and there was absolutely no one on the fence.



It was notable then the following day when one buy-side panellist, after explaining that they have become more reliant on their vendors, was asked how these firms can deliver more value to them.

The speaker highlighted thought leadership, and especially guidance around regulatory changes, as an important factor. Technological innovation and development was cited as another.

They continued: "Technical enhancements — will they be quick enough to support those regulatory changes, what does their technology development look like? Are they going to be able to get me where I need to be if I don't have that internal resources to build?"

A final point they added was around networking and resources, saying that a vendor can add significant value by putting them in touch with other buy-side peers who might have struggled (and hopefully overcome) similar challenges.

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