Crisil
Coalition Greenwich

Integrating Workflows, Expanding Product Base, Key to Growth of Innovative Trading

November 13, 2020

Two factors—integrating workflows and an expanding product base—hold the key to growth of innovative trading protocols such as streaming and broader use of electronic trading in the U.S. Treasury market.

That was the refrain among leading market participants at an October 20th webinar on the evolution of trading in the U.S. Treasury market, hosted by Greenwich Associates and anchored by Kevin McPartland, Head of Market Structure and Technology Research.

Since the COVID-19 pandemic began, the U.S. Treasury market has witnessed a shift in trading protocols, with central limit order book (CLOB) volumes declining relative to the whole market, even as request for quote (RFQ) volumes on the dealer-to-client (D2C) side have strengthened.

Streaming Platforms See Volumes Slowly Grow

On the other hand, streaming volumes have grown, but at a slower pace.

Innovative trading protocols such as streaming, which provide continuous streams of buy-sell quotes, have created a huge buzz in the past few years, with their ability to deliver customized pools of liquidity direct to clients, provide pricing transparency and leverage algorithmic execution and automation to create greater efficiencies. However, streaming volumes haven’t quite taken off as expected.

Nichola Hunter, former CEO of streaming start-up LiquidityEdge and now Head of Rates at MarketAxess (which acquired LiquidityEdge last year), said that’s due in part to existing market conditions—desktop real estate is at a premium in home offices – but there’s room for growth and innovation.

Also, streaming platforms chiefly cover on-the-run securities, which are the most liquid part of the Treasury market. But they don’t quite cover the vast universe of off-the-run or dated securities, given the complexities of providing pricing. Nevertheless, the number of liquidity providers streaming liquidity in off-the-runs on the MarketAxess Rates platform has doubled this year, as revealed by Nichola Hunter.

According to Jamie Mortimore, Executive Director and Head of the Global Rates Automated Trading Systems Team at J.P. Morgan, one of the reasons for the stickiness of RFQs is that clients find it cumbersome to use one system for on-the-run securities and another for off-the-runs, including T-bills and Treasury Inflation-Protected Securities (TIPS).

“There needs to be more integration of streams into traditional workflows and of a much broader range of products into streaming. That’s something we are working on,” said Jamie Mortimore during the discussion.

That, in turn, will drive demand from the buy side, prompting electronic market makers like Citadel Securities to enhance liquidity to clients in the mechanism or protocol they desire, explained Citadel Securities’ Head of Global Derivatives and FICC Development, Troy Kane.

Choice in Trading Protocols

When it comes to trading in U.S. Treasuries, it’s not a case of one protocol against another, pointed out Michael O’Brien, Director of Global Trading at asset management firm Eaton Vance. “My philosophy to my traders is that I want to give them as many tools as possible—whether it is RFQ or streams or central order limit books—and let them decide what is the most relevant protocol to use on a trade-to-trade basis.”

At MarketAxess, the attempt is to make it easy for clients to access the best liquidity pools, whether they are delivered via streams or RFQ or any other protocol. As Nichola Hunter noted, “It’s not an either/or for us. It is going to be protocol choice depending upon the liquidity profile of the instrument, and analytics and workflows to back that up for best execution.”

As of now, though, the much-talked-about overlap between dealer-to-dealer (D2D) and D2C venues and protocols hasn’t happened.

E-Trading Platform Consolidation

What could drive this in future, though, is the frenetic pace of consolidation seen in the e-trading platforms space with a spate of mergers, acquisitions and joint ventures, such as the acquisition of LiquidityEdge by MarketAxess or the partnership between Nasdaq and the Trumid trading platform. The aim of both of these transactions is to increase efficiencies in U.S. Treasury hedging for corporate bonds by creating complementary products between rates and credits.

As Troy Kane observed, “The synergies that the acquisitions are bringing to the market show promise with the merging of credit and rates, which has been long overdue.”

Indeed, the panelists agreed that consolidation in the space was welcome, since a proliferation of platforms could lead to fragmentation of trading volumes, in addition to making it challenging for clients to access the best price. Also welcome is the proposed increased oversight of the platforms, or Alternative Trading Systems (ATSs), by the Securities and Exchange Commission.

J.P. Morgan and Citadel Securities are also working on expanding their product coverage across the entire rates universe, including European government bonds and even emerging markets offerings, as well as integrating algorithmic trading capabilities.

“What’s really going to make the pie grow is more ease of access and product base on a platform,” said Troy

Kane.

As the COVID crisis has made clear, improved access to electronic trading is key for market participants.

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.