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What's Next for High Frequency Trading?

Liquidity. Infrastructure. Latency. Algorithms. The language of growth in Asia and Emerging Markets.

It is currently estimated that 60% of all U.S. stock trades are executed via high frequency trading. UBS estimates that about 30%of Japanese equity trading is high-frequency. That compares with up to 10% in all of Asia, up to 10% in Brazil, about 20% in Canada, and up to 40% in Europe, according to a report by New York-based agency broker Rosenblatt Securities. High-frequency trading accounts for up to 40% of trading volume in U.S. futures, up to 20% in U.S. options, and 10% in foreign exchange, the report said.1 The current market in the U.S., while still a very viable opportunity for high frequency trading in a number of asset classes, has some serious barriers to entry in terms of its cost basis. Thus, the idea of looking at new markets to penetrate are starting to take shape – particularly in Asia.

Since the U.S. and European markets have matured, companies are thinking about their strategic growth into new markets. The Asian markets are beginning to implement changes for these strategies to exist on certain platforms: Tokyo Stock Exchange's Arrowhead; Singapore's SGX; Malaysia's BURSA and others – primarily Hong Kong and Australia – are looking to beef up their regulatory environment and computer hardware infrastructure to enable high frequency trading strategies within their markets. Algorithmic trading and high-frequency trading in the FX market are expected to grow rapidly. "If you're in the region, the buzz is there and the growth is there,'' said Steven Silberstein, CIO of Chi-X Global, speaking at the Global High-Frequency Trading Outlook in 2010. In 2012, that growth is now in high-gear.

"Two things are important to electronic trading in Asia – First, ndf's are important to ccy trading and ndf volume over e-systems is rising dramatically as the community gets more comfortable with ndf's. Second, in equities (and in some other products) many countries (e.g. Japan, Korea, Taiwan) limit access to some exchanges to just a few - mainly sell side - shops. As these few shops start providing "pipes" into the exchanges, volumes on these markets will rise and spreads narrow. This is happening now." *client source

What does this all mean in terms of human capital requirements?

Quite frankly – a lot.

These strategies are employed by people with some very unique skills. As such, there are many opportunities for proven operators who can create and tweak algorithms; have the requisite knowledge base to drive and build the required software and underlying infrastructure; understand the market complexities associated with these particular strategies and find balance between the alpha generated by the models themselves where maintaining the right mix of technology and connectivity to allow for highly profitable trading. These needs are not unique to Asia, and, as such, skilled high frequency talent from systems engineers through financial mathematicians and quantitative traders will be in high demand globally. As other asset classes – FX, rates, commodities - look to employ high frequency strategies as liquidity and execution improve, and the ability to drive profitable returns gets more difficult due to similar strategies being employed across the markets by multiple firms with similar latencies and execution capabilities, the search for superior human capital will greatly intensify.

We foresee a long-term trend of growth in terms of high frequency trading opportunities, as well as growth in terms of human capital needs – for Asian and other emerging markets exchanges as they continue to mature.

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