

OUT-OF-HOURS TRADING: NOT AS EASY AS WE MAKE IT LOOK

Interview with Michael Hall; Spectrum Markets



Michael, there is strong evidence that demand for out-of-hours trading is increasing. As a pioneer of 24/5 trading, this is good news for Spectrum Markets. But if 24/5 trading is such a great idea, why isn't everyone offering it?

According to Acuiti, a management intelligence platform that provides operational analytics, there is strong demand from investors for trading derivatives outside their local trading hours. And this demand is only increasing. Reason enough to ask Michael Hall, Head of Distribution at Spectrum Markets, how this report corresponds with Spectrum's experience, what is driving demand for out-of-hours-trading and how this demand is being met.

Tell us about the main findings of the recently released study on extended trading hours.

In my view, the most striking aspect, aside from the fact that overall demand is rising, is that the majority of respondents to the survey said they are motivated by capturing specific opportunities and reacting to events at any time.

Aren't these quite obvious motivations for out-of-hours trading?

Yes, however, the motivation changes slightly when we look at different types of investors. The first thing that retail traders associate with seamless market access is convenience. Institutional market players that responded to the survey highlighted the additional earnings potential attached to out-of-hours trading. While portfolio managers may seek the additional hedging opportunities, prop traders benefit from the optimisation potential of the longer trading hours. Whichever way you look at it, one thing is apparent: trading at all times of day and night, enabling investors to seize opportunities as and when they occur regardless of the relevant time-zone, is obviously a highly sought-after feature for professional and retail traders alike. Then again, this is much less commonly available than one would think.

Are you satisfied by seeing your own business model confirmed by this study's results?

Of course, the survey underpins our own positive experience with out-of-hours-trading which consistently accounts for more than one third of our total trading volume. However, the question should be: if there is such pronounced demand, why are the offerings still so limited?

I am sure you know the answer, too...

I'll answer this by describing the challenges. You need to have a trading infrastructure in place that is robust and resilient and control mechanisms that are powerful and permanent. Spectrum is open for trading from 23.00 CET on Sunday until 23.00 CET the following Friday. Each day's trading session begins and ends at 23.00 CET, with a two-minute window at on Monday, Tuesday, Wednesday and Thursday nights during which we must complete all funding adjustments and system maintenance. We operate three shifts: the night shift in Bangalore opens the market, the early shift in Frankfurt takes over at 07.00 CET, the late shift in Frankfurt is responsible from 15.00 CET until 23.00 CET and then the whole thing repeats. Throughout this schedule, we provide immediate client support at all times and we maintain continuous monitoring of trading activity on the venue; surveilling for market abuse, manipulation, unusual trading patterns any other incident that may need to be escalated for resolution. All this is going on without interruption in the background.

What about the provision of sufficient liquidity?

That's a very important point. Liquidity is a very visible, core feature of a trading venue; if you're not able to show competitive bid-ask spreads as a trading venue, you lose a key argument for on-venue trading over OTC trading. When you give your connected banks and brokers the option of making certain securities available on a 24-hour basis, you need to make sure you can consistently provide liquidity throughout those extended trading hours. Otherwise, the tremendous effort required to enable round-the-clock trading would have been wasted. In my view, this is one of the most challenging tasks in continuous trading operations.

Facilitating liquid trading on a 24/5 basis requires market makers that are capable of supporting liquidity enduringly. Although modern market makers do not need to generate a profit from every trade, because the combination of bid-ask spreads and the bottom-line return from their overall trading activity is their profit, longer trading hours equate to increased risks that the market maker must cover. On the one hand, as multi-asset market makers, their exposure against non-liquid trading periods in other markets extends just because there is no trading a given time. On the other hand, during periods of strong volatility, they're more exposed towards statistically driven gaps. All these risks increase in line with a growing product universe and a strong diversified trading interest.

How can these liquidity challenges be circumvented?

In designing our venue from scratch, we had the chance to plan and scale our growth alongside the very specific needs of a retail trader client group. Starting with a focused product range has proved to be a huge advantage, particularly with a view to market making and even more so regarding periods of severe volatility. Every step towards a broader, more diversified offering will require intensive preparation and discussion with existing and potential partners before implementation. In addition, we put a strong emphasis on an integrated approach regarding the product and transaction lifecycle. For example, we enable a high level of flexibility for our issuers to replace an expired product within minutes and we have introduced the pan-European ISIN. Together with the obligations we impose on our market makers, these measures are intended to ensure liquidity in sufficient depth, without interruption.

Thank you very much!

Get in touch today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

spectrum-markets.com

By phone
+49 69 4272991 80

By email
info@spectrum-markets.com

Spectrum is the trading name of Spectrum MTF Operator GmbH. Headquartered in Frankfurt, Germany, we offer a new way of dealing in leveraged products for the European retail market; introducing a purpose built 24/5 lit trading venue, with complete transparency, increased choice and maximum control