

A large circular graphic in the center of the page contains a complex financial chart. The chart features a dark background with a grid of fine lines. Overlaid on this are several data series: a prominent purple line graph showing an upward trend, a teal line graph showing a more volatile path, and a candlestick chart at the bottom. A large, semi-transparent purple arrow points upwards and to the right, following the general trend of the data. A teal circle is positioned on the right side of the chart, connected by a thin teal line to the main circular graphic. The overall design is modern and tech-oriented, with a color palette of purple, teal, and white on a dark blue background.

The Proprietary Trading Management Insight Report Q1 2022

Produced in association with

AVELACOM



Introduction

Welcome to the second Acuiti Proprietary Trading Management Insight Report. This quarterly report is designed to provide senior executives at proprietary trading firms across the world with a means of benchmarking sentiment and attitudes.

The findings in this report are based on a quarterly survey of members of the Acuiti Proprietary Trading Management Network.

Each quarter members of the network can suggest topics and pose questions to their peers. If you are a senior prop executive reading this and are not in the network already, please do get in touch.

This quarter we look at where the opportunity is for firms in 2022, investment intentions and a quick view on where costs rose in 2021.

Acuiti will be hosting two Proprietary Trading Managers' Meetings in May and June in Amsterdam and Chicago respectively. These, exclusive, private forums are designed to bring you together with your peers for an afternoon of networking and discussion. See our website for details.

Finally, thank you to our report sponsor Avelacom and the FIA and Euromoney TRADEDATA for the provision of data to use in this report.

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Sentiment across the global proprietary
trading community

Where are the opportunities in 2022?

We asked executives about their plans for investment in 2022 and where they saw the most opportunity for growth and profitability in the global market.

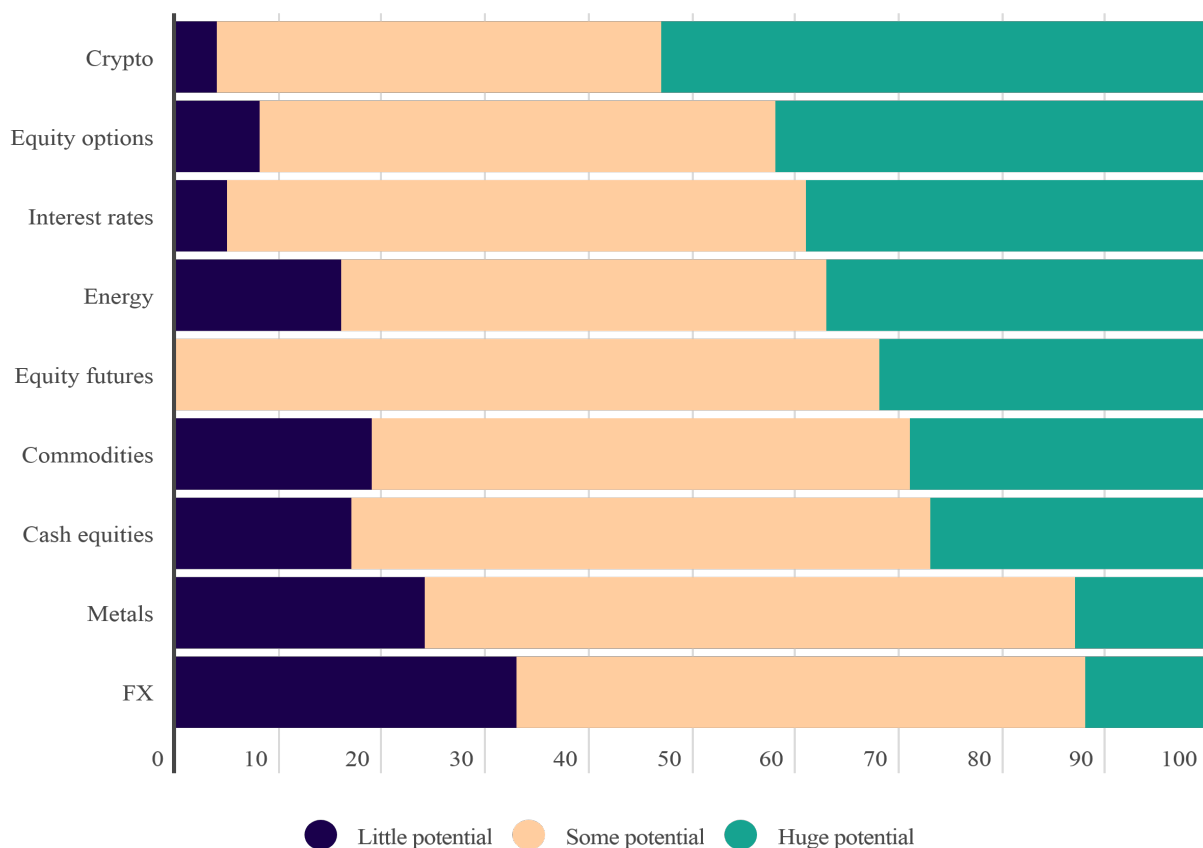
Cryptocurrencies, equity options, interest rates and energy are the asset classes that will present the biggest opportunities in 2022 for proprietary trading firms. According to the Acuiti Q1 2022 survey of senior proprietary trading executives, cryptocurrencies present the biggest opportunity with 52% of respondents seeing huge potential in the asset class.

Despite recent falls and uncertainty over the regulatory framework, the sheer scale of volatility in crypto presents enormous opportunities for firms as both retail and institutional activity continues to grow.

The mood is much more downbeat on FX however, with only 6% of firms seeing huge potential and 33% seeing little potential for profits. Whether this pessimism changes as central banks tighten monetary policy will be interesting to observe.

There were significant differences between company types in terms of where the opportunity lay in 2022. Ultra-low latency and predominantly algo trading firms saw heightened opportunities in FX compared with their peers with all firms seeing huge potential in this market coming from these segments, while point and click firms were more likely to identify opportunities in interest rates and energy markets.

In which asset classes do you see the most potential in 2022?



North America

1. CME
2. Equity Options
3. ICE

Europe

1. Eurex
2. ICE Futures Europe
3. Euronext

South and Central America

1. B3
2. MexDer
3. Matba-Rofex

APAC

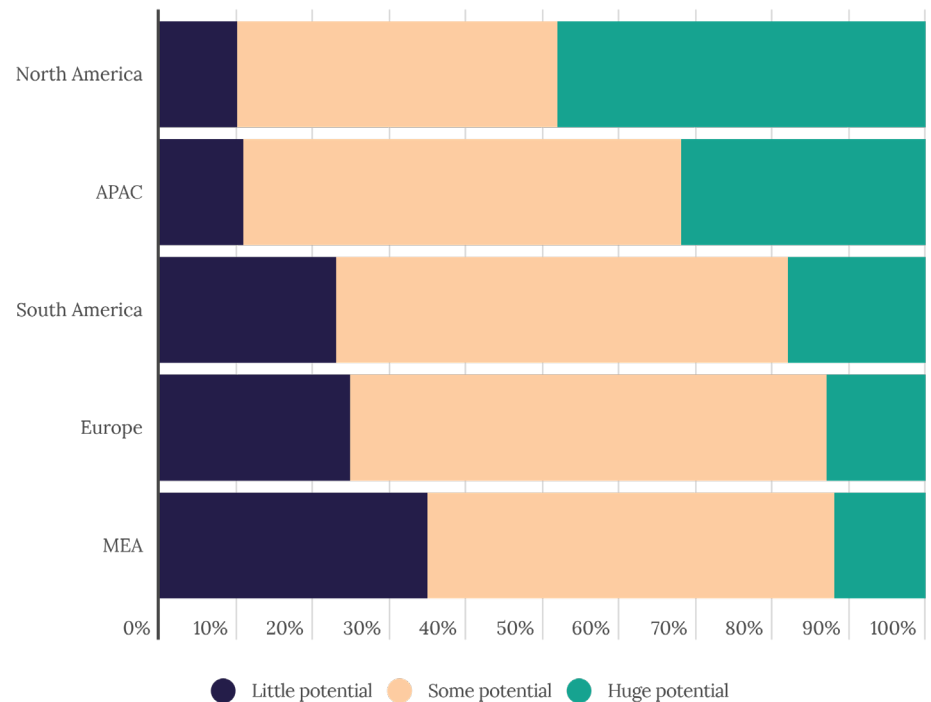
1. Mainland China
2. HKEx
3. Onshore India

MEA

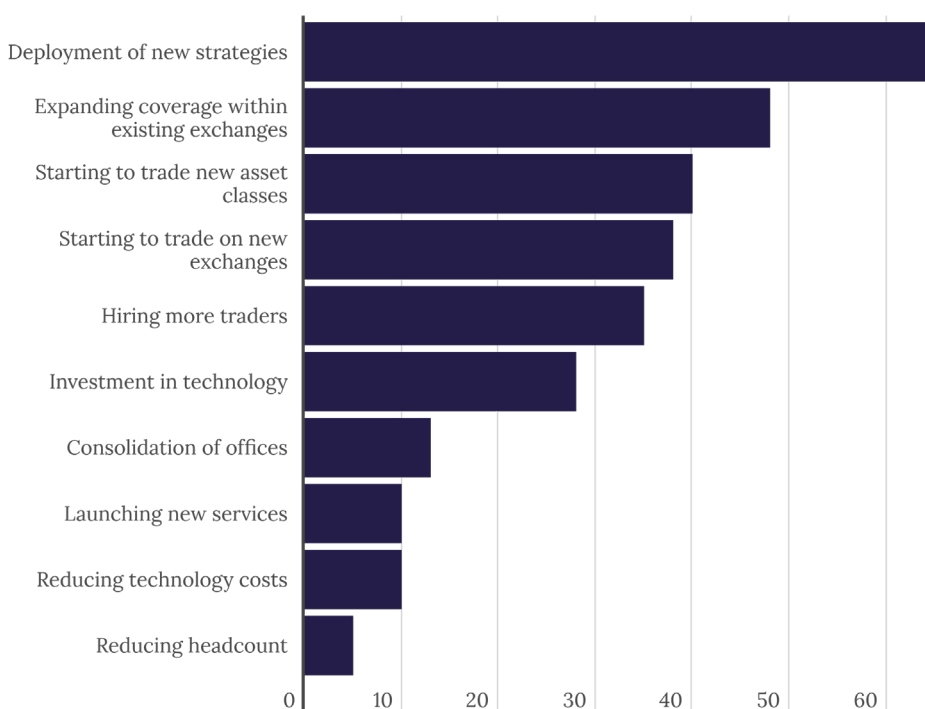
1. DGCX
2. DME
3. Saudi Exchange

In which regions do you see the most potential in 2022?

By region, firms saw CME and equity options markets as having the most potential in North America, the latter after a spectacular 2021. Eurex and ICE Futures Europe were top for Europe. The survey revealed a fairly negative assessment of Europe though, with only 13% seeing significant potential in the region, just higher than the 12% who were bullish on MEA. By contrast, 48% see huge potential in North America. Sentiment was also strong towards APAC where China and Hong Kong were seen as the two most attractive markets for growth in 2022.

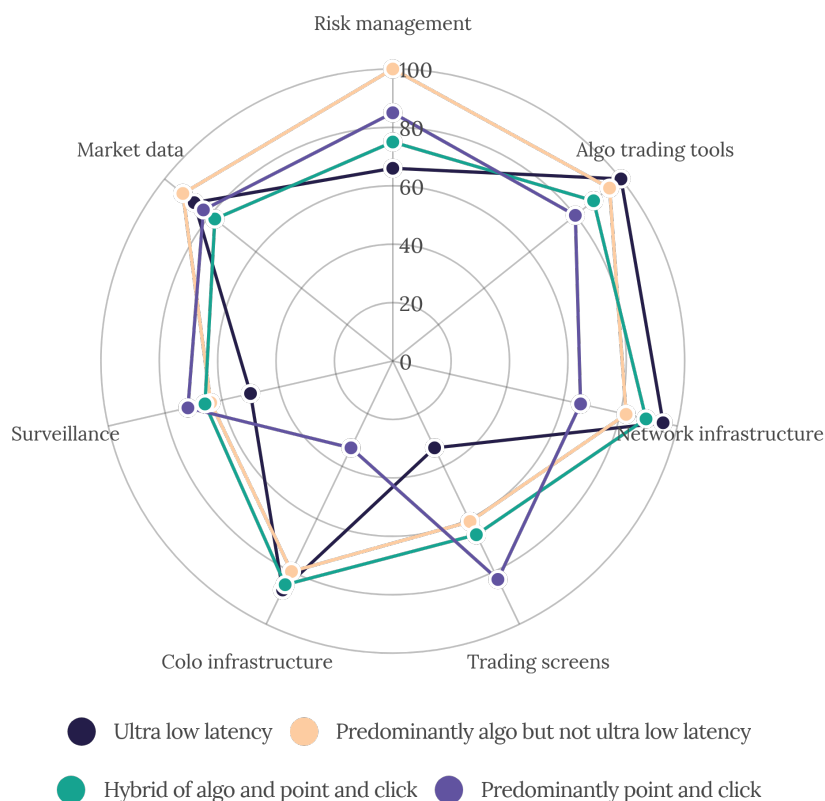


Where do you see the most opportunity for profit growth in 2022?



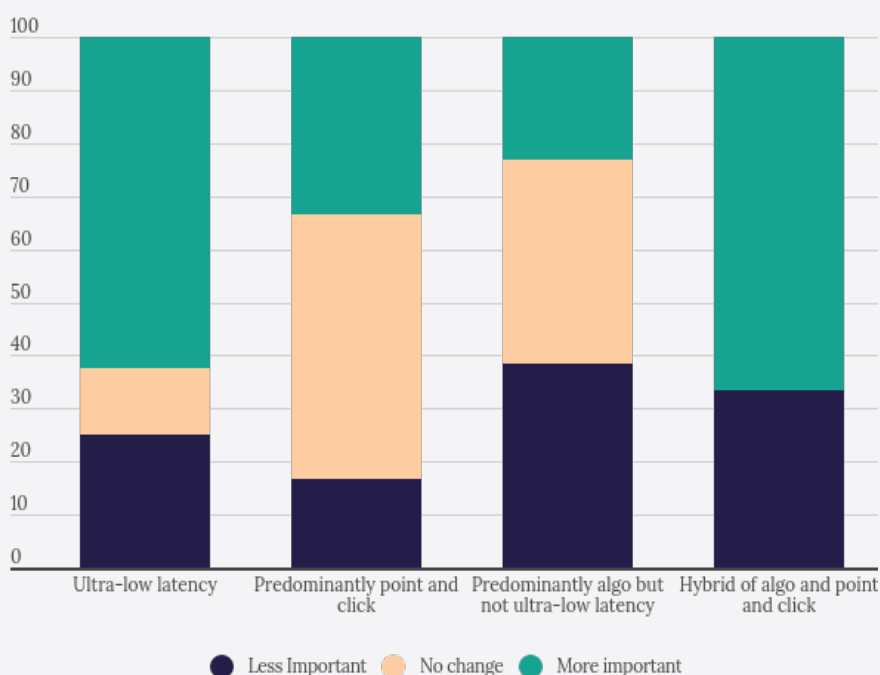
After deploying new strategies, proprietary trading firms' favoured plans for growth in 2022 are expanding coverage within existing exchanges (48% of respondents to the survey), starting to trade new asset classes (40%) and starting to trade on new exchanges (38%). Encouragingly defensive moves, such as consolidation of offices and reducing headcount and technology costs were not priorities. Indeed, a separate question in this quarter's survey found that 65% of respondents expected headcount to grow in 2022 with 22% predicting a significant increase. This reflects the general sense of optimism in the market identified in the market sentiment tracker (see section on Outlook, page 12).

What are your technology investment priorities in 2022?



Proprietary trading firms are planning significant investment in 2022. Overall, firms' top investment priorities are algorithmic trading tools, co-location infrastructure and market data, however, there were some significant variations between company type (see chart). The findings regarding investment intentions reflect the shift identified in approaches to latency (see box below). Second tier algo firms appear to be shifting investment away from speed and into smarter trading strategies. Overall, just 5% of firms were not planning to invest in algorithmic trading tools in 2022. 40% of respondents were planning a big investment here. A related finding was that firms across the board were also planning significant investment in co-location infrastructure, including a small number of traditionally point and click firms.

Is latency becoming more important to your strategies?



There is a growing divergence in the importance of latency to proprietary trading firms with a reduction in importance for second tier algo firms and an increase for traditionally less latency sensitive hybrid firms. Significantly there was an increase in importance in latency to point and click firms, traditionally not focused on speed. Latency is also growing in significance across the trade cycle with firms pointing to increases importance in market data and risk management in addition to the traditional focus on execution.

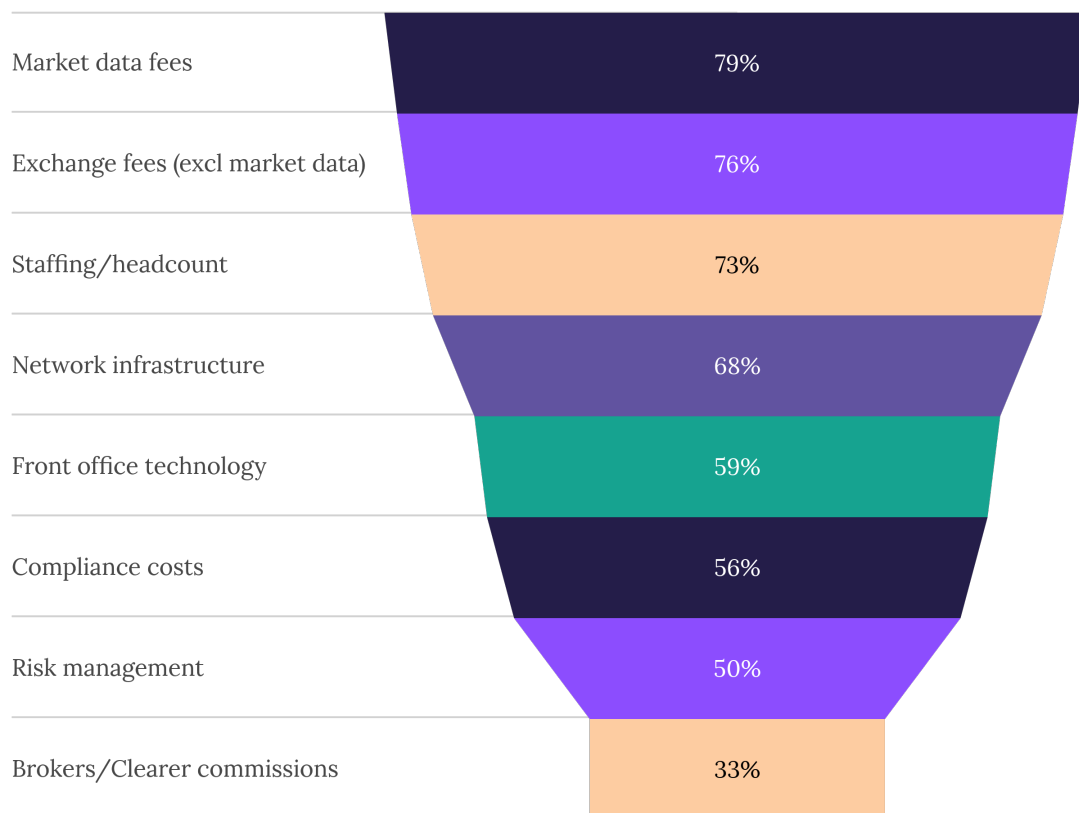
Where did costs rise for props in 2021?

In response to a request from a member of the proprietary trading senior executive network, we asked where cost increases were seen in 2021.

Over 90% of respondents reported that costs increased in 2021, continuing a trend identified by Acuiti in previous years in other research. Executives were most likely to report cost increases for market data and exchange fees, surpassing staffing and headcount investments. These findings support long held and growing concerns over the economic dominance of exchanges in the listed derivatives markets and point to a detrimental tax on growth for firms. Encouragingly, the growth of compliance costs was more subdued than seen in previous years. However, this was not evenly felt with 85% of firms in Europe reporting increases in compliance costs related to Brexit, Mifid II and the upcoming introduction of a new Prudential Regime.

Where did you see costs rise in 2021?

(% of respondents reporting cost increases in that area)



Volume growth and trading opportunities

This section looks at exchange volume growth and new trading opportunities. Each quarter we will publish the Avelacom Exchange Growth Index, highlight trading volumes on recently launched contracts, profile an emerging or frontier market and take a look ahead to some key upcoming contract launches.

The AVELACOM Exchange Growth Index

The Avelacom Exchange Growth Index is a benchmark of quarter-on-quarter volume growth across cash equities and derivatives markets. Exchanges must have been trading for more than one year to feature in the index. Futures and options data is provided by the FIA, cash equities from the exchange websites.

Exchange	Vol % Change
FairX	306.4%
Borsa Istanbul	107.7%
MATba ROFEX	66.4%
European Energy Exchange (EEX)	60.3%
Dubai Gold & Commodities Exchange	59.3%
Nodal Exchange	40.5%
Nasdaq BOX	38.9%
Borsa Italiana (IDEM)	30.6%
Warsaw Stock Exchange	28.2%
LedgerX	26.0%
National Stock Exchange of India	25.7%
EDGX Options Exchange	24.9%
Tel-Aviv Stock Exchange	22.7%
Chicago Mercantile Exchange	22.1%
Boston Options Exchange	20.8%
International Securities Exchange	20.6%
Shanghai International Energy Exchange	19.8%
Euronext Oslo*	19%
Moscow Exchange	18.9%
Warsaw Stock Exchange*	19%
Nasdaq Exchanges Nordic Markets	18.8%
Budapest Stock Exchange	17.5%
Euronext Lisbon*	17%
Montreal Exchange	16.9%

*Cash equity markets

Source: Futures and options data provided by the Futures Industry Association; cash equities data from the exchanges' websites

New contract watch

The table below, based on data provided by Euromoney TRADEDATA, profiles the performance of the top 20 new contracts launched last quarter based on average daily volume.

Exchange Name	Contract Name	Type	Volume	Open Interest	ADV	Launch Date
Hong Kong Exchanges & Clearing	MSCI China A 50 Connect (USD) Index	Future	624,145	62,994	9,907	Oct-18
Chicago Mercantile Exchange	Micro Ether	Future	208,824	22,314	3,262	Dec-06
Euronext Paris	TRF CAC 40 Index	Future	45,389	371,702	687	Oct-18
Multi Commodity Exchange of India	iCOMDEX Energy Index	Future	37,231	712	564	Oct-07
Singapore Exchange Derivatives Trading	SGX-NZX Global Whole Milk Powder	Future	18,603	47,957	281	Nov-22
NASDAQ OMX	OMXS30 ESG	Option	13,000	14,705	203	Nov-08
FairX	Micro Crude Oil	Future	10,557	131	164	Oct-25
The Small Exchange	Small Cryptocurrency	Future	10,219	1,232	159	Oct-04
Taiwan Futures Exchange	Mini Finance Sector Index	Future	7,805	347	121	Dec-06
Singapore Exchange	SGX-NZX Global Skim Milk Powder	Future	4,663	20,167	70	Nov-22
Bursa Malaysia Derivatives	East Malaysia Crude Palm Oil	Future	2,330	89	36	Oct-04
Singapore Exchange	SGX-NZX NZ Milk Price	Future	1,971	37,736	29	Nov-22
Singapore Exchange	MB Iron Ore CFR China	Option	1,690	1,550	37	Dec-06
Singapore Exchange	SGX-NZX Global Butter	Future	1,435	7,936	21	Nov-22
Singapore Exchange	SGX-NZX Global Whole Milk Powder	Option	1,015	9,350	15	Nov-22
Multi Commodity Exchange of India	Nickel	Option	440	82	19	Dec-14
Singapore Exchange	SGX-NZX Global Anhydrous Milk Fat	Future	430	3,133	6	Nov-22
Hong Kong Exchanges & Clearing	MSCI China Net Total Return (USD) Index	Future	97	25	1	Nov-22
Hong Kong Exchanges & Clearing	MSCI China (USD) Index	Future	49	16	-	Nov-22
Moscow Exchange	EUR/GBP	Future	13	6	-	Dec-27

Data provided by Euromoney TradeData

AVELACOM Emerging Exchange Profile: B3



For the past decade, B3 has been one of the fastest growing global derivatives exchanges. Today its One-day Interbank Deposit and Mini Ibovespa Index futures contracts are among the most traded in the world by volume. At the heart of B3's success is the increased participation from international proprietary trading firms. As part of the Emerging Exchange Profile series, Avelacom caught up with **Claudio Jacob, International Business Development Managing Director at B3** on efforts to boost capital markets in Brazil with B3 at the forefront in 2022 and beyond.

What is attracting international proprietary trading firms to the Brazilian market?

Two main factors: The Brazilian market has been growing at a fast pace and creating new opportunities for proprietary trading firms from all over the world. According to the Futures Industry Association (FIA), B3's futures and options market grew 38% in 2021, reaching a total trading volume of 8.76 billion contracts. With products with high liquidity, significant presence of different types of investors, such as local buy-side and retail, and high volatility, prop firms have been finding excellent opportunities in the Brazilian market.

As an example of this growth, the Brazilian options on single equities ADV increased 31% in 2021 when compared to the year before, reaching a daily traded volume of 743 million contracts. In addition, B3's IBOVESPA Equity Index and USD/BRL Mini futures contracts have grown 58% and 18% respectively, becoming two of the most traded future contracts in the world (FIA). According to FIA, B3's Interbank Deposits Interest Rate contract (DI1) was ranked the most traded in the world in terms of number of contracts.

Aligned with the volume growth of different assets, the number of retail investors has been rising significantly in the last few years. The recent period of low interest rates encouraged this movement and in January 2022 the number of retail accounts investing at B3 reached 5 million.

For the last ten years B3 has invested in creating an infrastructure that offers different types of solutions (in terms of connectivity, systems, services, market data, etc.) to all kinds of investors in our market. In this sense, besides offering co-location services, B3 recently built a brand-new data centre that offers solutions for hosting trading infrastructure and aggregated services, which we consider game changing for prop trading firms.

Is it just the largest firms that are currently trading?

B3 has always strived to offer a level playing field for all types of investors and we have noticed solid flow from smaller players in our market. To incentivise smaller players, we created a set of incentive programs aimed at supporting Proprietary Traders without much knowledge of the Brazilian Market - our Onboarding Incentive Program helps PTGs cover some of the costs involved in getting set-up in Brazil, such as those associated with hardware, research, and account opening with local representative and custodian, etc.

What initiatives do you have in place to attract proprietary trading firms to the market?

B3 believes that a diverse client base is key for a healthy and prosperous market. To promote diversity in our environment, and to build a comprehensive market for all types of players, we have created programs that offer incentives for PTGs that meet certain requirements in terms of profile and trading. These are available not only for high frequency traders but also for non-automated trading firms. We also introduced a separate fee schedule to incentivise higher volumes and turnover in our markets.

Another initiative is focused on Market Making. B3 has around 1000 products with designated market makers, and the programs are renewed on an annual basis. Among the products are local and international equities and ETFs, options, futures, etc.

What new products have you recently launched and what is the strategy behind that?

B3 is endeavouring to position itself ever more as a comprehensive platform in the global markets, offering opportunities for local investors to have exposure to international markets and to international investors to arbitrage prices between markets. In this context, it's important to mention that B3 has more than 740 BDRs (receipts of international companies traded in Brazil, including equities, ETFs, etc) available for trading. We have also listed futures contracts of international markets, and this includes indices such as S&P 500, Nikkei, DAX and Euro Stoxx.

In the commodities segment, B3 recently launched the FOB Santos (Platts) Soybean Futures Contract. This contract has the same specs as the one listed by the CME Group in Chicago and provides the opportunity to perfectly arbitrate prices between both markets.

Another project that B3 has been working on is the new EDS (Exchange Defined Strategies) which should be available on the PUMA Trading System in the first quarter of 2022. With the new feature, banks, fund managers, non-resident investors, brokers and distributors will gain efficiency in carrying out strategies for the yield curve and currencies.

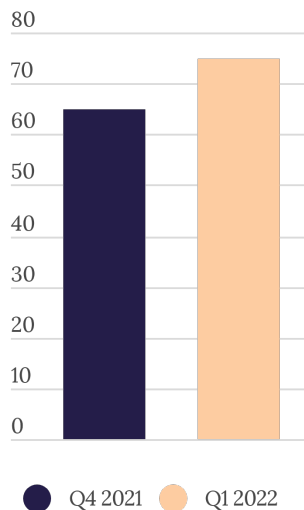
With the election coming up this year in Brazil, how are investors positioning themselves?

Election years are typically volatile everywhere in the world and this is no different in Brazil, which may also bring new trading opportunities. Another important fact to mention is that even with the possible increase in volatility and risk for this coming year, 2021 ended with an interesting statistic; foreign investors injected more than 70 billion BRL into B3, the highest value recorded since 2004.

[Click here](#) to download the Acuiti Guide to B3 for international proprietary trading firms

Outlook

This section looks at current levels of optimism measured on a quarterly basis.



75%

of respondents were either very or quite optimistic about the next three months, up from 65% in Q4 2021

Optimism among senior proprietary trading executives rose last month with 75% saying that they were either quite (55%) or very (20%) optimistic about the coming quarter. Respondents from the US were the most optimistic followed by Europe (excl UK) and the UK. Respondents from Asia were the least optimistic. Executives running businesses that traded point and click or a hybrid of point and click were more optimistic than ultra-low latency and predominantly algo firms.

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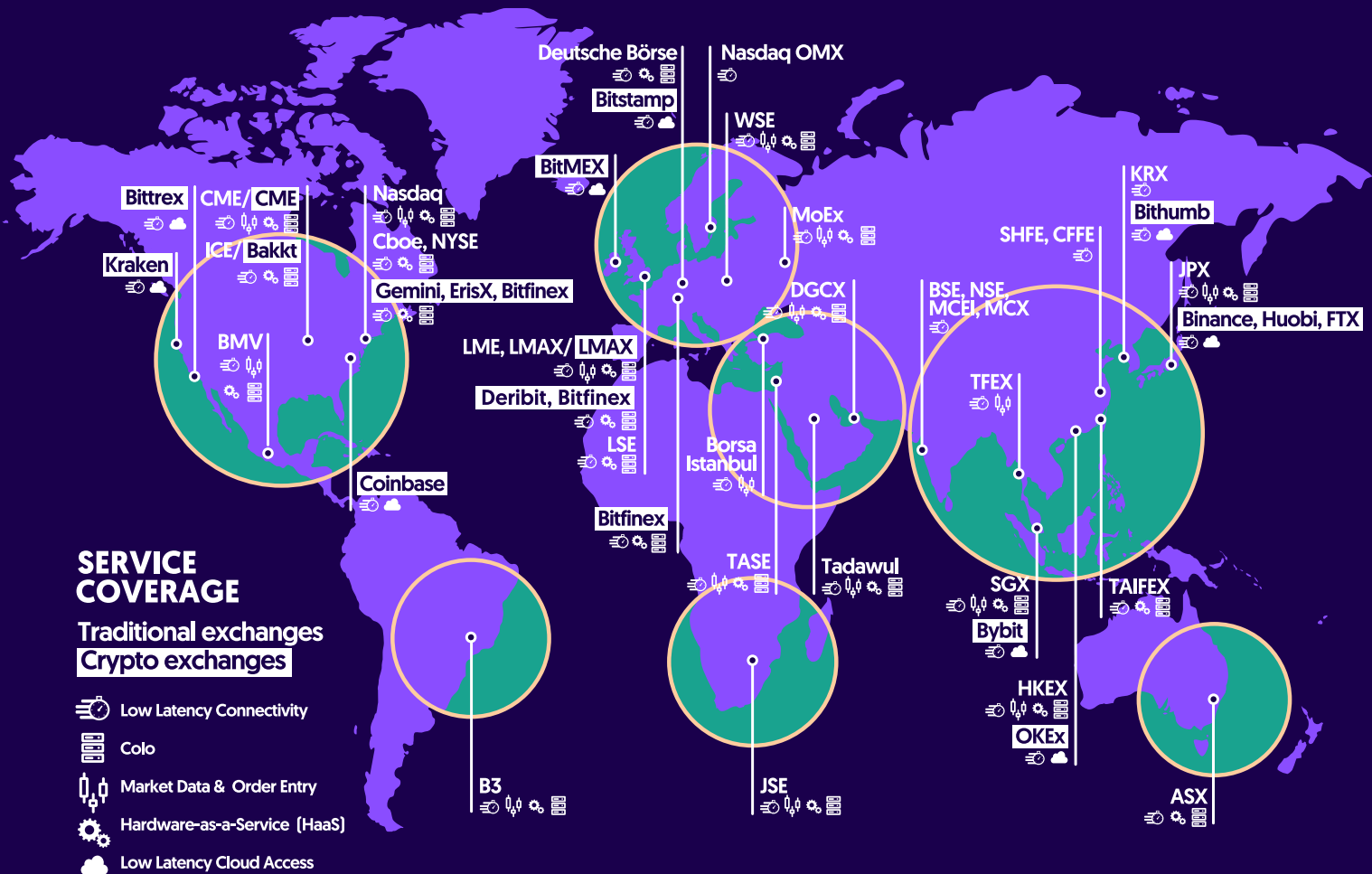
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