

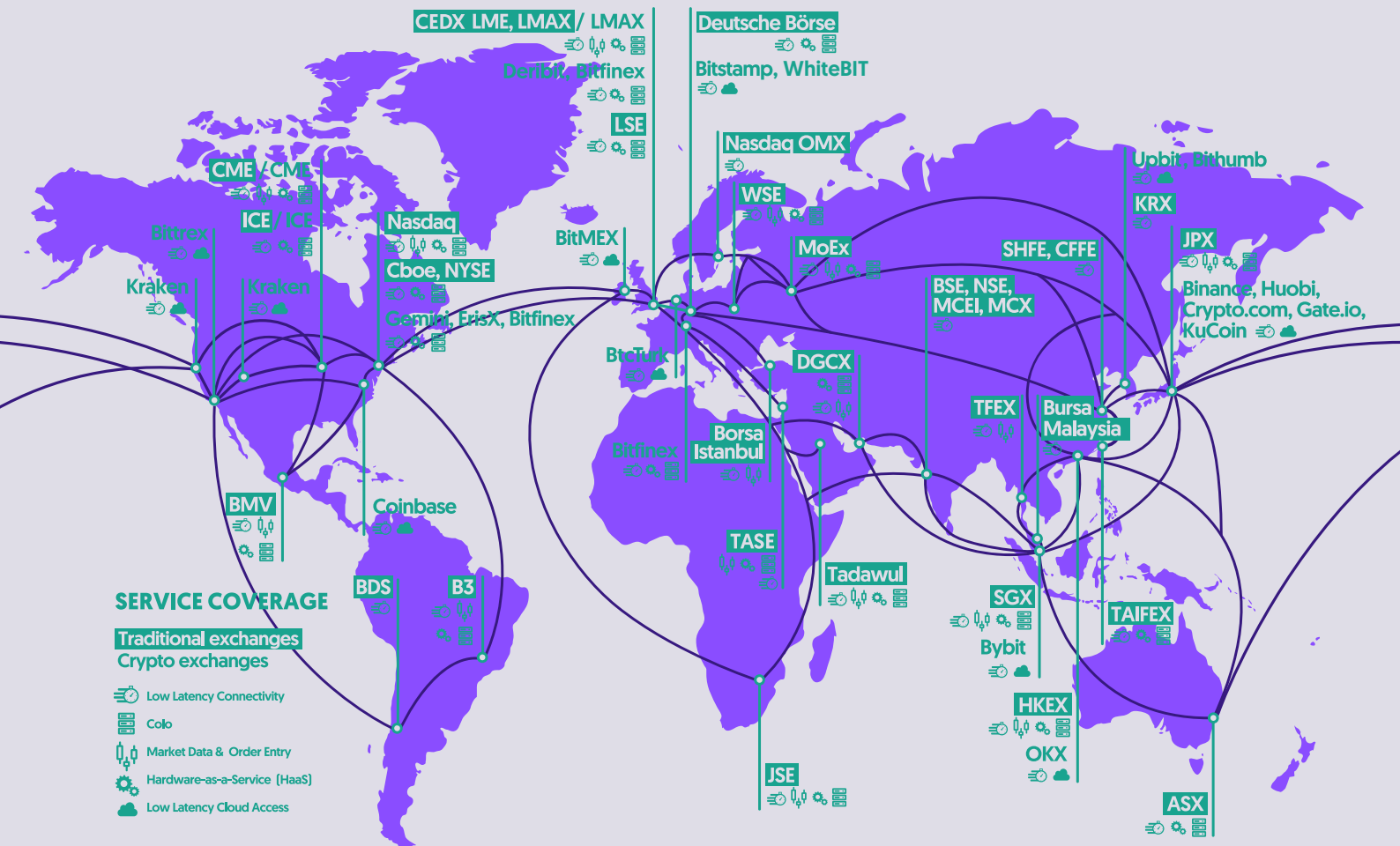
Proprietary Trading Management Insight Report

Q2 2024

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#1 ULTRA LOW LATENCY INFRASTRUCTURE FOR MARKET MAKERS AND ARBITRAGE TRADERS



OUR CLIENTS

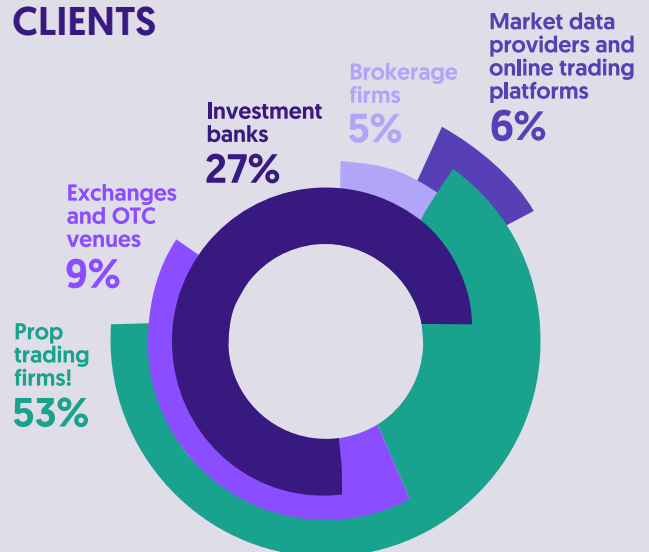




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Introduction

After record optimism among proprietary trading firms last quarter, it is perhaps no surprise that sentiment has dropped from the highs of Q1. However, these are still good conditions for proprietary trading firms as volatility continues across global markets, particularly in interest rates and energy.

At the same time, competition in certain areas among exchanges is resulting in healthy distributions of incentives to firms to support new markets and contracts. That is ongoing in Europe, where Eurex is seeking to wrest Euribor from ICE and build liquidity in €STR as part of a three-way battle with the CME. In the US, BGC will later this year launch its FMX rates market to compete with the CME.

Taking liquidity from another market in listed derivatives is a tough task and many have failed where Eurex and FMX tread. However, this quarter we find that there is some optimism in corners of the market that this time the challengers might succeed.

In addition this quarter, we take a look at how firms are approaching investment in the front office. Recent outages and cyber attacks on third-party vendors are driving a trend towards inhouse builds from proprietary trading firms.

Other hot topics this quarter include headcount plans for 2024, accessing India and concentration concerns.

This report is based on a survey of the Acuiti Proprietary Trading Expert Network, a group of senior executives from proprietary trading firms across the global market. Each quarter members of the network suggest topics and questions to cover, which are then sent out to the network. If you are a senior proprietary trading executive who is not part of the network, please contact Alice at alicekristiansen@acuiti.io.



Front-office investment: buy or build?



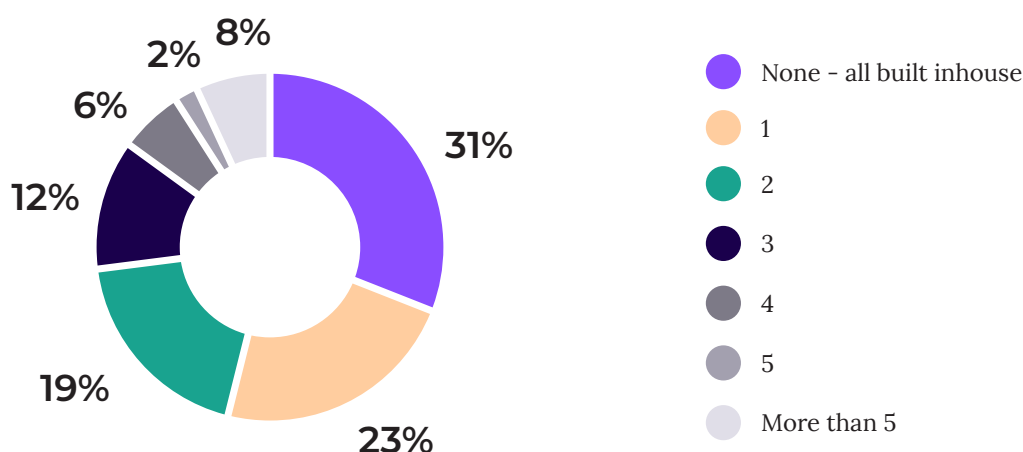
Whether to buy or build front office software has been a perennial question for proprietary trading firms since the advent of electronic trading. The window of consideration shifts over time depending on a variety of factors.

This quarter's report takes a deep-dive into where firms are today. The survey finds that just under a fifth of proprietary trading firms that outsource their trading screens to an independent software vendor (ISV) are currently planning to build inhouse systems.

This move towards inhouse development would see the percentage of proprietary trading firms that develop systems inhouse rise to above 40% and mark a significant shift towards inhouse development.

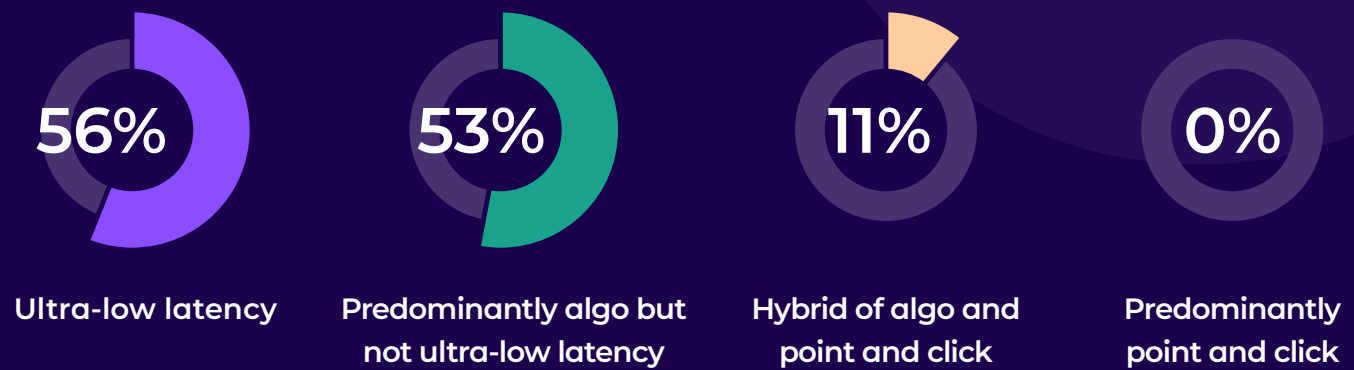
Currently, just under a third of proprietary trading firms develop their front-office trading screens inhouse with the vast majority of those that outsource working with 3 or fewer vendors.

How many third-party vendors do you work with for the provision of trading screens?

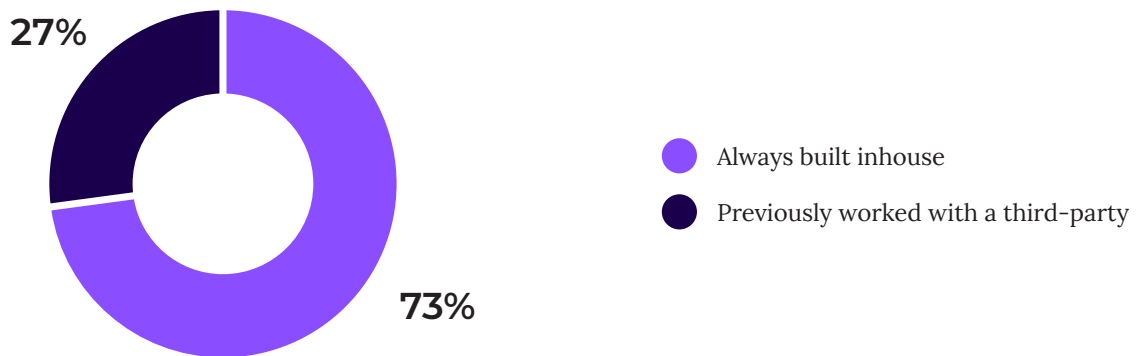


Of those that build their software inhouse, 27% previously worked with an ISV. All firms that chose to built inhouse said that control over development was the key reason for doing so.

Which firms build front ends inhouse?

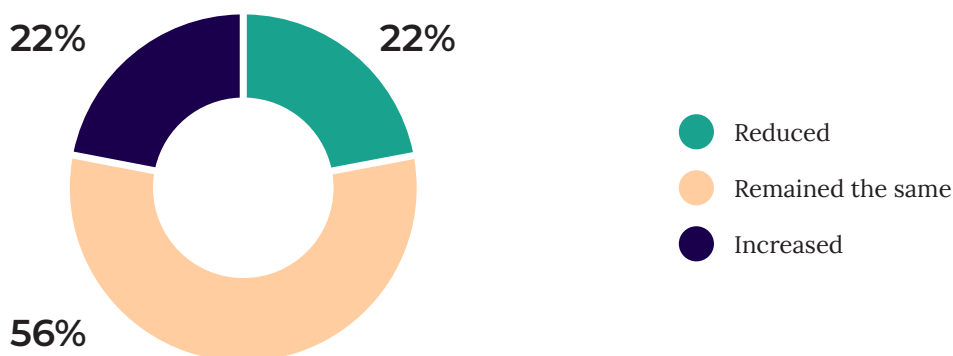


Have you always built inhouse or did you previously work with a third-party vendor?



For firms that outsource their screens to an ISV, most had not changed the number of vendors they work with over the past five years. While 22% had reduced the number and the same percentage had increased it.

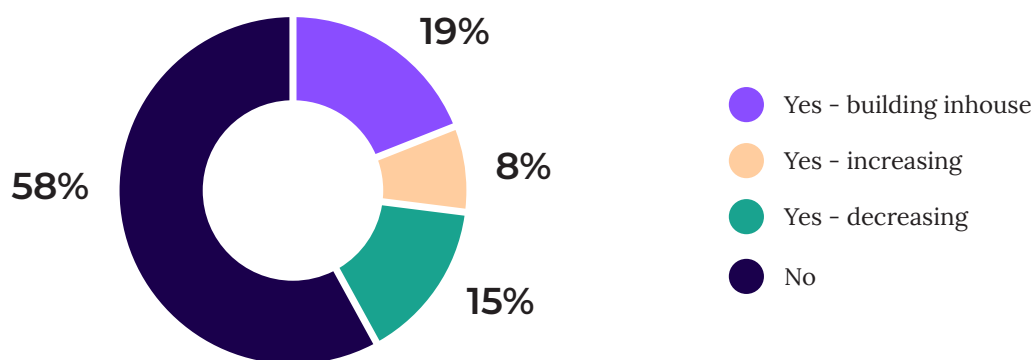
How has the number of third-party vendors you work with changed over the past five years?



A majority were changing the number of vendors they currently work with. Just 8% said that they were planning to increase the number of vendors they worked with and

15% were planning to reduce the number. Significantly though, 19% of firms that currently outsourced their front office were planning to develop inhouse.

Are you planning to change the number of third-party vendors you work with?

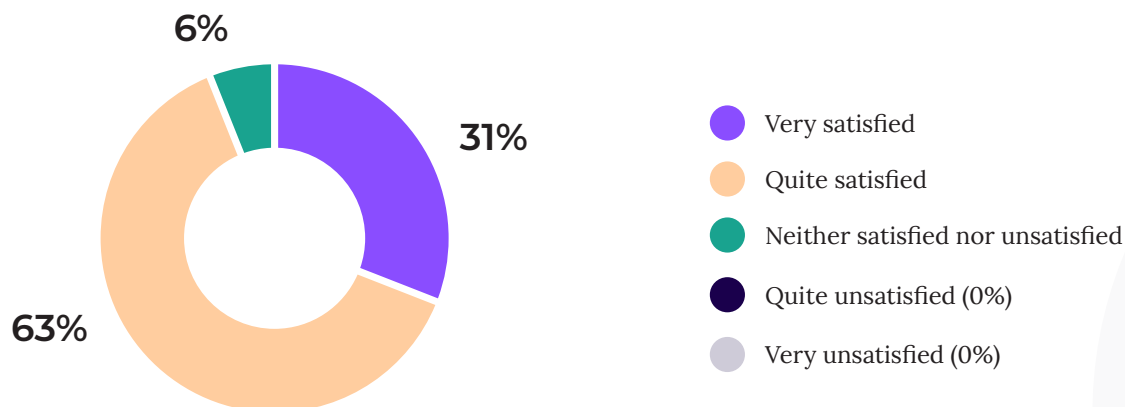


Satisfaction levels

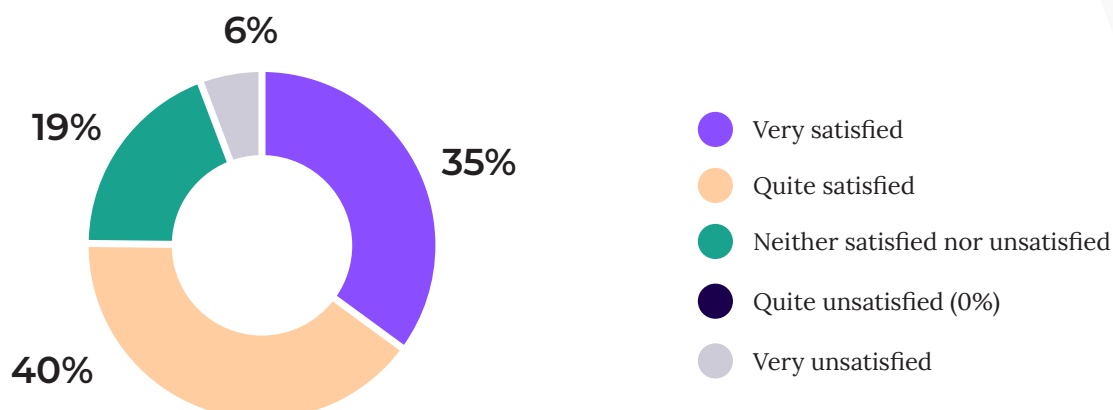
Firms that built their front-office technology inhouse were more likely to be happier with both the quality and performance of their

technology, although satisfaction with the cost was notably lower than that of quality and performance.

Overall, how satisfied are you with the quality and performance of your inhouse technology?



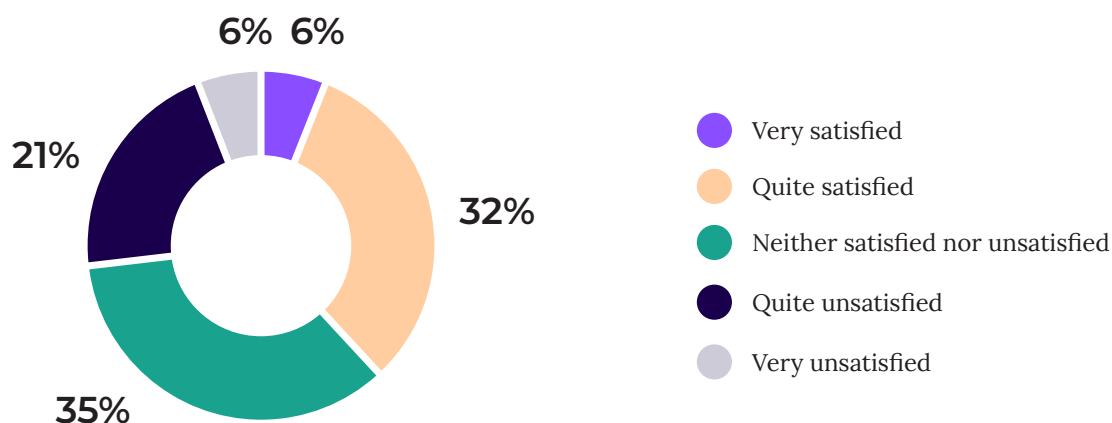
Overall, how satisfied are you with the cost of your inhouse technology?



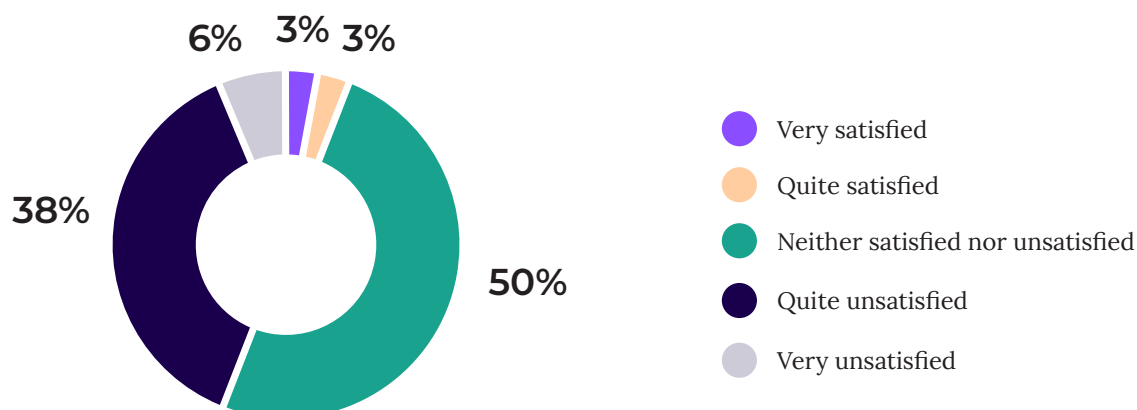
Firms that outsourced were more likely to be satisfied than unsatisfied with the quality and breadth of choice on the market. However,

there were high levels of dissatisfaction with the costs of running third-party screens.

Overall, how satisfied are you with the quality and breadth of choice for third-party trading screens?



How satisfied are you with the cost of third-party trading screens?



This perception of cost is contested by vendors. They argue that the total cost of ownership is lower for outsourced solutions once initial build costs, salaries of tech staff and the cost of upgrades is taken into account. Of those that outsourced their front office screens,

over half worked with Trading Technologies, which was also said to have the best offering for proprietary trading firms. Other ISVs that were said to serve the proprietary trading market well were Broadridge (formally Itiviti), Sol3, CQG and Stellar.

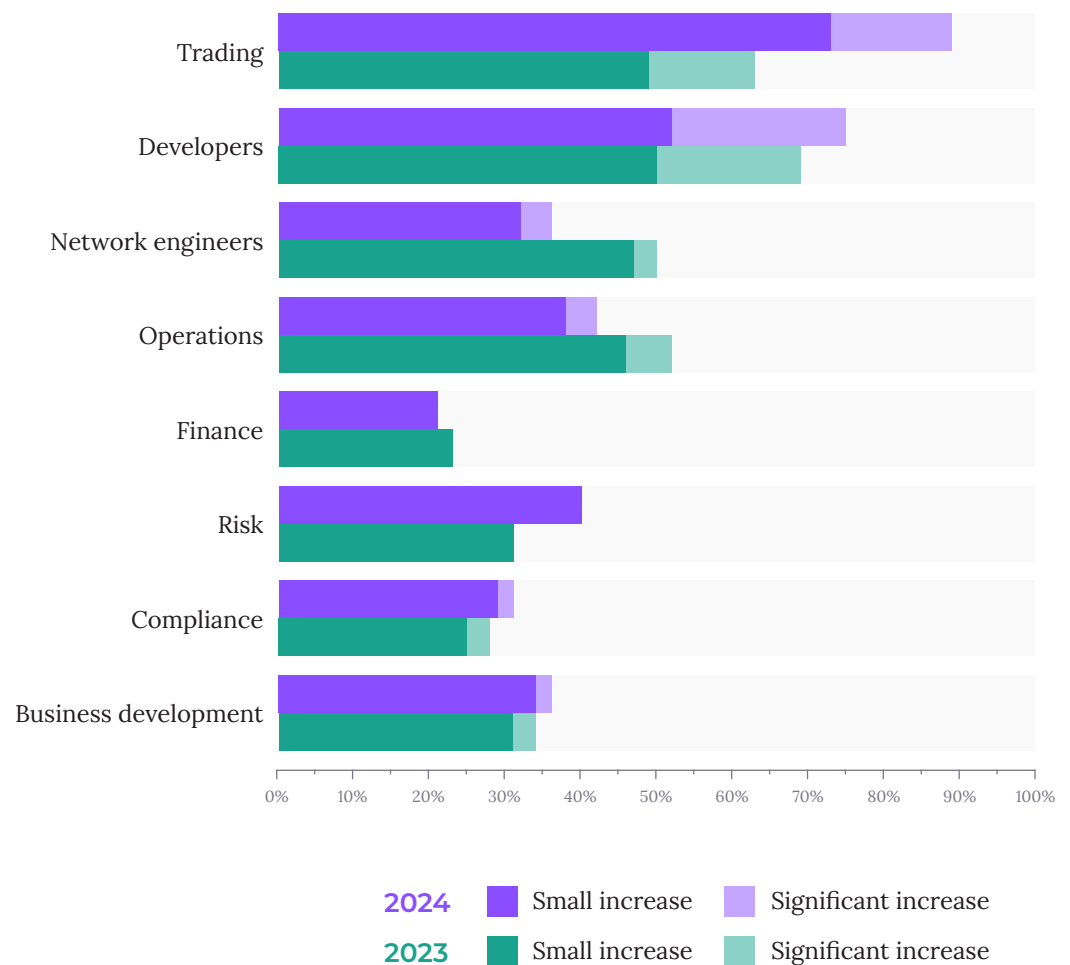


Headcount plans in 2024

Members of the Proprietary Trading Expert Network are planning to increase the level of hiring of trading staff, developers and risk management compared to last year, with other areas remaining broadly in line with 2023.

Almost 90% of firms are planning hires in trading with 75% planning to hire more developers. This compares with 63% and 69% respectively in the same study last year.

How are you planning to change headcount in the following areas in 2024?



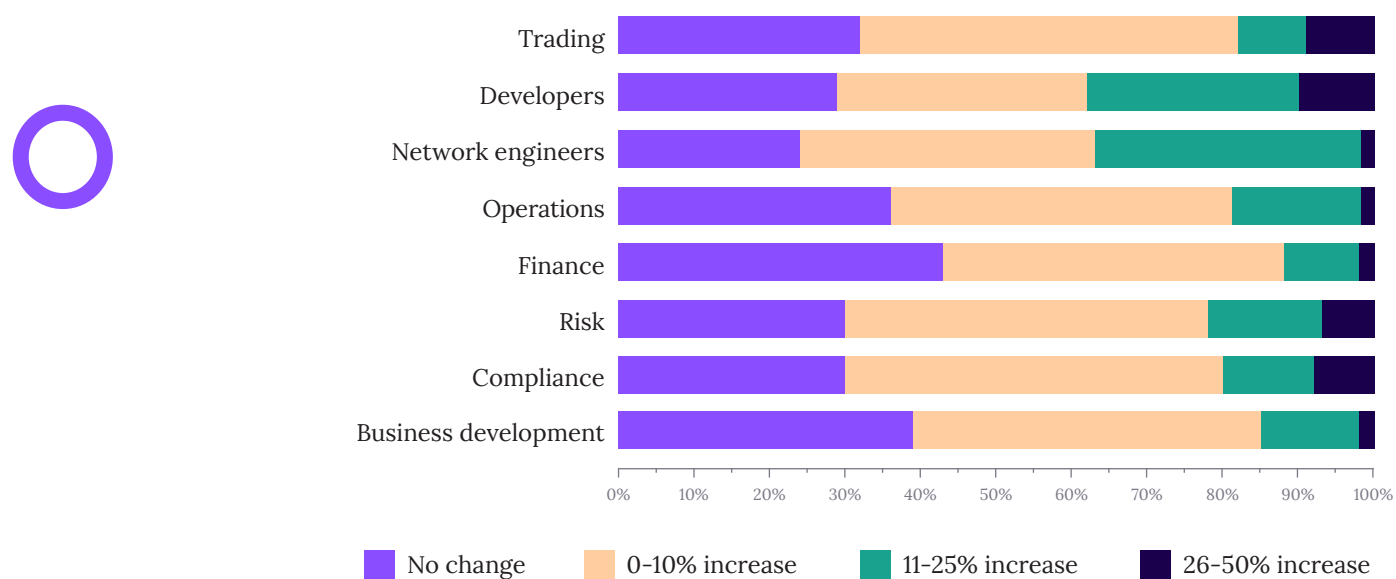
The hiring plans come as wage appreciation has slowed in certain roles over the past 12 months. However, wage rises remain high in certain areas, particularly developer roles where wage increases of more than a quarter were reported by 10% of the network.

This is a decline on last year, though, when 14% of the network reported 26-50% wage

increases for developers and 5% reported that wages had gone up by more than half. This year no respondents reported more than 50% wage increases in any roles.

Wage increases in business development and network roles have remained broadly constant while the pace of increases for finance and compliance has slowed.

How much wage appreciation have you seen in the following areas in the last year?



Wage appreciation was highest in the UK, although US firms also reported continued competitive pressure on salaries.

Trading India

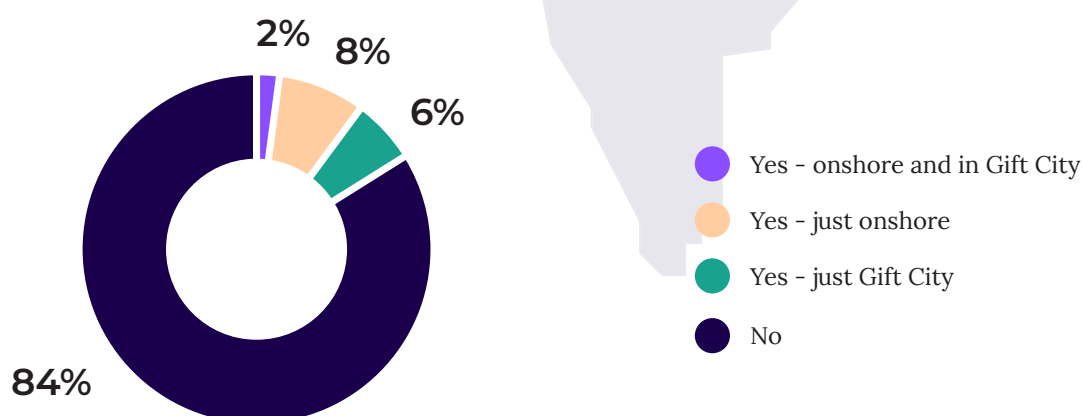


India has been a fast growing market for proprietary trading firms as its expansive retail markets and relatively high levels of volatility present huge opportunities.

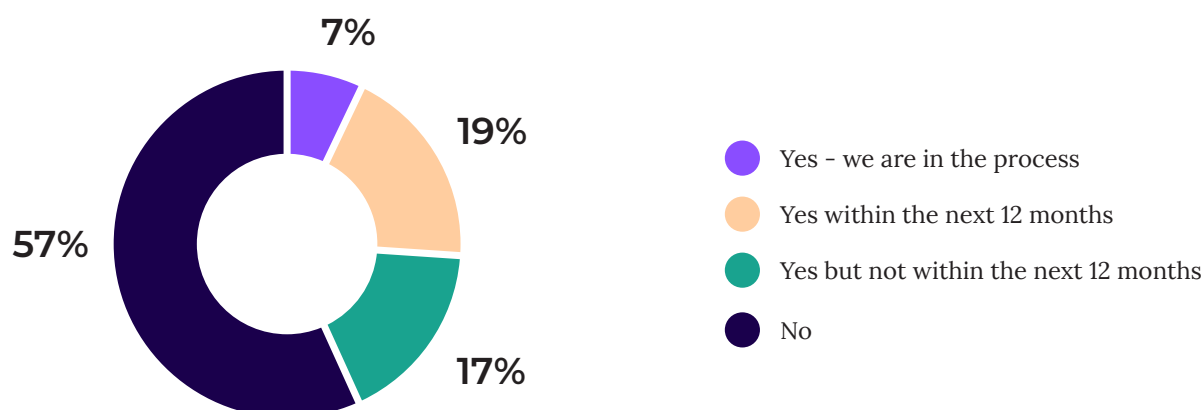
This quarter we take a deep-dive into how firms are approaching the market and intentions to start trading.

Within the network, 16% of firms were already trading in India. Of those that weren't, 43% were planning to start trading at some point.

Do you trade on Indian markets?



Are you planning to start?



Firms planning to trade India should expect some hurdles in the process of connecting and starting to trade the market.

Of those already trading, just 7% said it was very easy to connect and start trading compared with 14% who said it was very difficult.

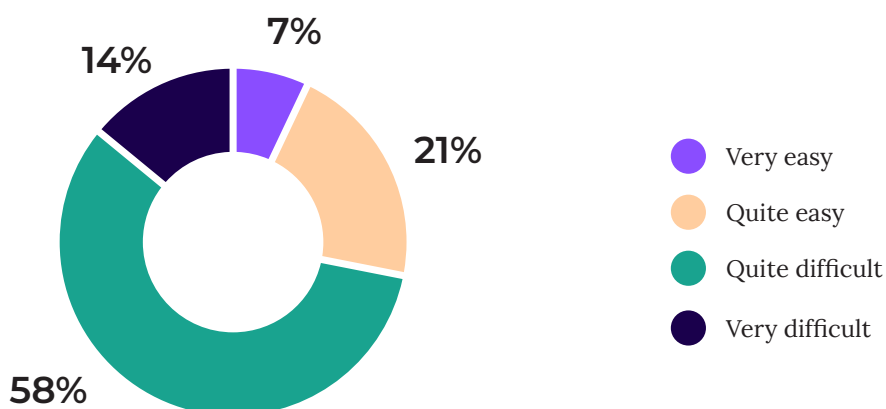
In a bid to increase international participation in its markets, India launched the Gift City initiative offering international firms access to

its markets via the India International Exchange and the NSE International Exchange.

Firms trading in Gift City reported a shorter lead time to start trading, with over two-thirds connecting in less than a year.

Several firms choose to trade onshore, however, to gain greater access to the local market. Here the lead time is longer, with two-thirds reporting that it took more than a year to start trading.

Overall, how easy was it to connect and start trading on Indian markets?



The major challenge that firms faced was in understanding the local rules. However, firms also reported challenges in dealing with local regulators. Connectivity and colocation set-up was said to be quite challenging, while finding a local lawyer and broker was straightforward for most firms.

While Gift City is an easier market to connect to, firms that traded either in both Gift City and onshore markets or just onshore reported higher profitability from trading India than those trading just in Gift City, suggesting that the investment in time and resources is worth the effort.

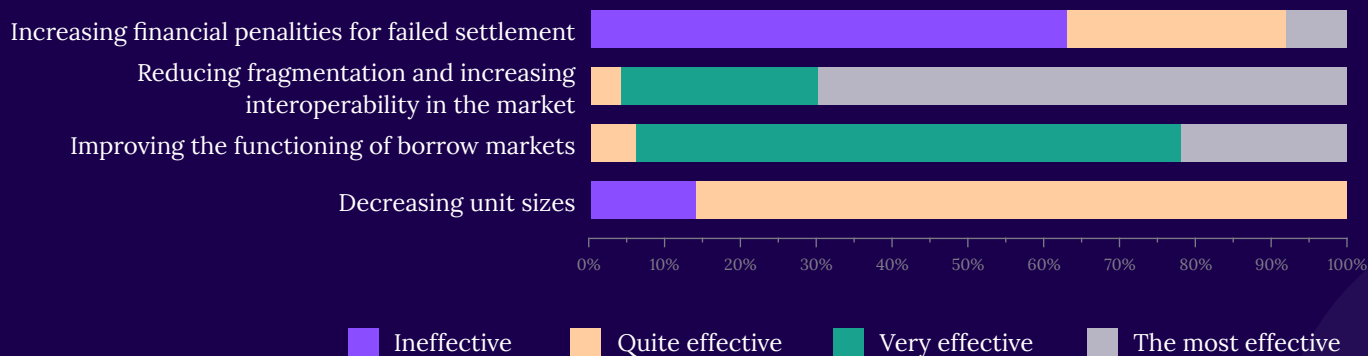
Hot Topics

ETFs in Europe

Last December, the European markets regulator ESMA launched a consultation into the failed settlement regime for ETFs following on from the introduction of the Central Securities Depositories Regime in 2022. Following the consultation, ESMA has proposed the introduction of progressive cash penalties for ETFs in a bid to reduce failed settlements in the European market.

This quarter, members of the Acuiti Proprietary Trading Expert Network sought the views of firms that traded ETFs in Europe on the proposals. This quarter's survey found that, while 75% of respondents that traded ETFs in Europe believed that the level of failed settlements was too high, just 8% thought progressive cash penalties was the most effective way of combatting the issue.

How effective do you think that the following would be to address the level of failed settlements in European ETF markets?



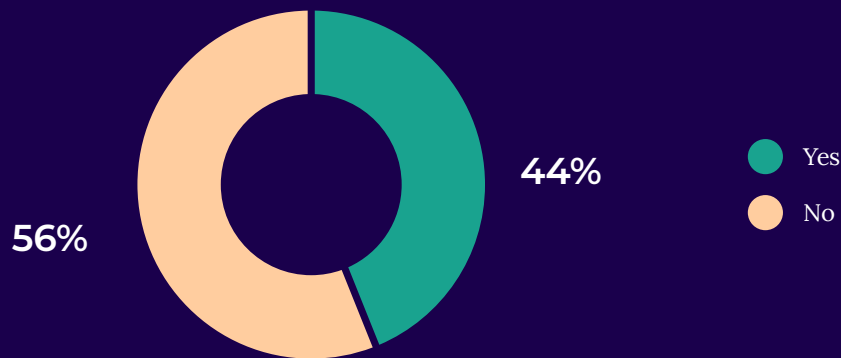
Reducing fragmentation and increasing interoperability were seen as the most effective means by 70% of the network, while improving the functioning of borrow markets

was cited by 22%. Decreasing unit sizes was seen as quite an effective measure by 86% of the network.

Concentration concerns

Concerns over the concentration of proprietary trading flow is high across several markets.

Are you concerned about the concentration of proprietary trading flow in any derivatives markets?



While overall, under half of the network was concerned about proprietary trading concentration, this was heavily dependent on region and products traded. 86% of respondents in the US were concerned compared with 44% in Europe (excl UK) and a third of those based in the UK.

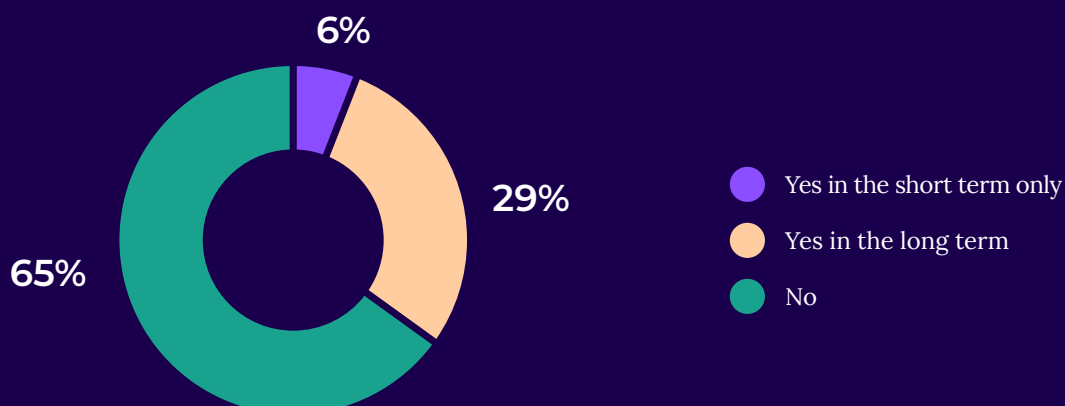
Concerns were raised particularly about ODTE options and certain ETFs including the SPDR. In addition, firms pointed to European markets in general as being exposed to concentration risk, a view that was prevalent among US based as much as Europe-based respondents.

Challenging the CME in rates

Later this year, BGC will launch its new rates exchange FMX, designed to wrest liquidity in dollar rates trading from the CME.

The exchange will clear into LCH and promises cross-margining across listed futures and options and swaps.

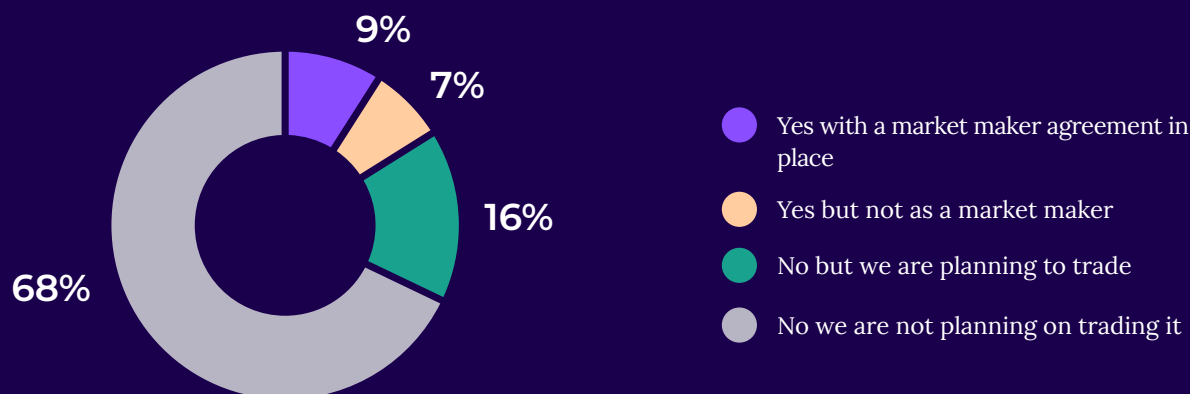
Do you think the new BGC interest rate futures market FMX will succeed?



While just under a third of respondents think that the exchange will succeed in the long term, few members of the expert network

that trade interest rates on US markets are currently planning to trade on day 1.

Are you planning to trade on FMX on day 1?



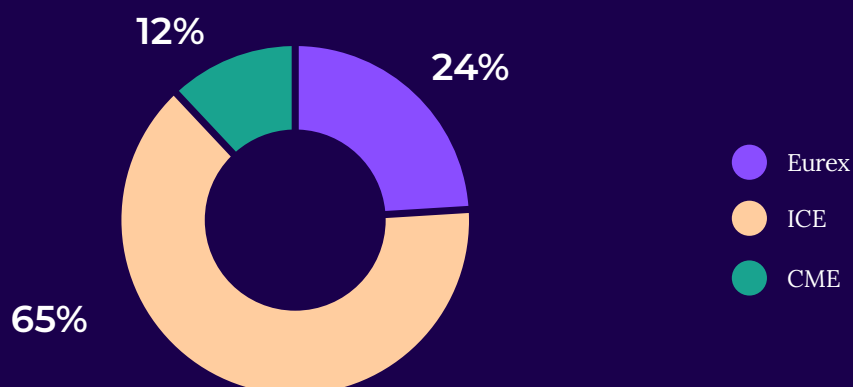
With the exchange not due to launch until September, there is still some way to go to secure market makers and increase day 1 participation before launch.

€STR battles

While CME at this stage looks safe against the challenge from BGC, prop executives whose firm traded European rates were less bullish

on its chances at succeeding in the battle for the new Euro risk-free-rate, €STR.

Which exchange do you think will ultimately host the biggest liquidity pool for €STR?



Currently, there is a three-way battle for liquidity between Eurex, the CME and ICE. ICE currently trades the vast majority of Euribor, which will remain as a Euro-benchmark alongside €STR.

A majority of the network thought that ICE would retain its dominance of the Euro rates

market with €STR, however, just under a quarter thought that Eurex would ultimately win out.

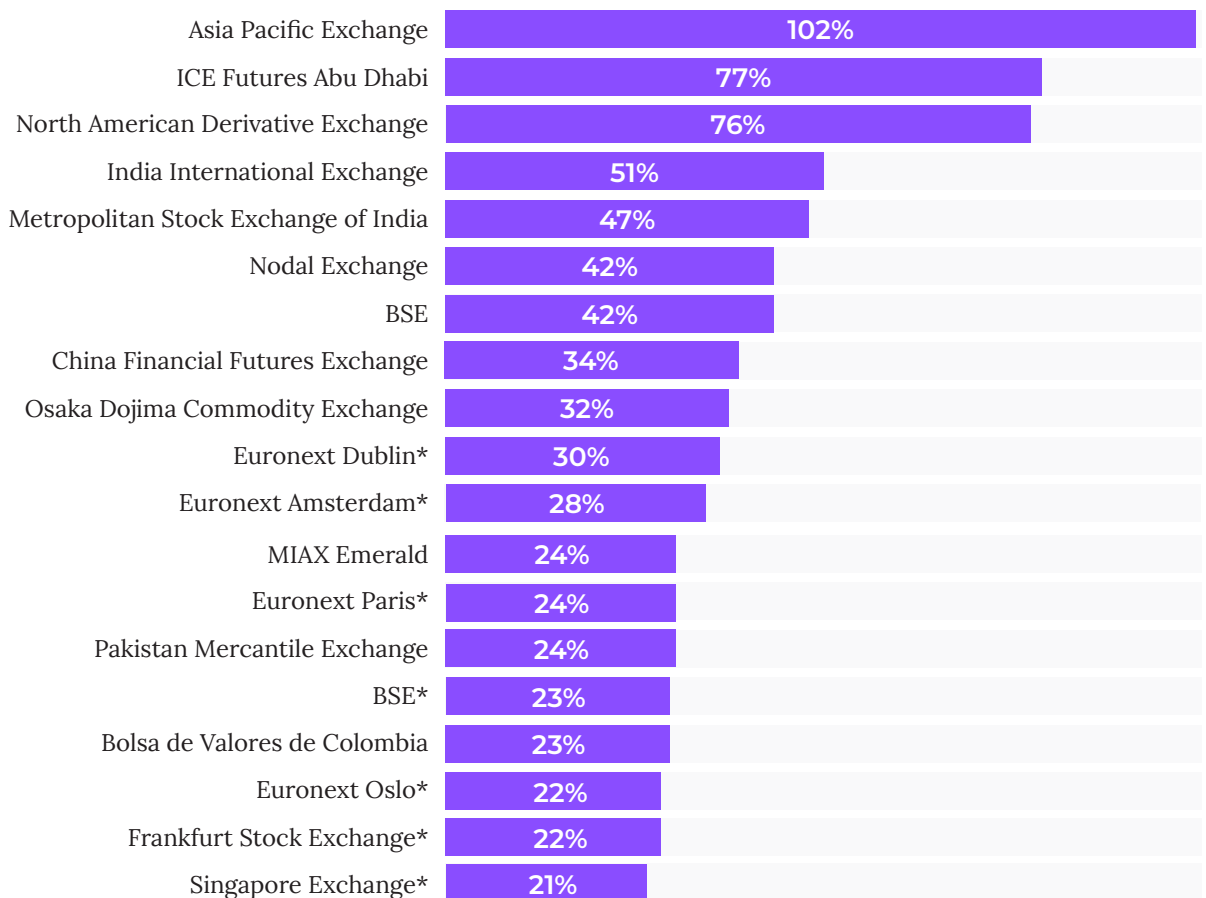
Some market commentators have predicted a permanent split in liquidity across different markets. However, this is very rare in listed derivatives.

Markets and contracts

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.



*Cash equities

Source: FIA, Exchange Websites

New contracts

The table below, based on data provided by FOW Data profiles the performance of the top new derivatives contracts launched last quarter, based on average daily volume.

| Exchange | Contract | Type | Volume | Open Interest | ADV | Launch |
|------------------------------|--|--------|--------|---------------|-----|--------|
| Chicago Mercantile Exchange | S&P 500 Annual Dividend Index | Option | 31,340 | 53,769 | 489 | 29-Jan |
| Chicago Board of Trade | Micro Ultra Long-Term US Treasury Bond | Future | 9,723 | 392 | 237 | 23-Mar |
| Chicago Board of Trade | Micro Ultra 10 year US Treasury Notes | Future | 8,174 | 74 | 199 | 23-Mar |
| Cboe Digital Exchange | Bitcoin | Future | 5,862 | 1,270 | 106 | 11-Jan |
| Eurex | EURO STOXX 50 Index Dividend Two Year Mid Curve | Option | 5,010 | 5,020 | 79 | 05-Feb |
| Eurex | Bloomberg Emerging Market USD Sovereign Owned Index | Future | 4,683 | 2,369 | 74 | 05-Feb |
| Eurex | EURO STOXX 50 Index Dividend Three Year Mid Curve | Option | 4,010 | 4,020 | 63 | 05-Feb |
| Korea Exchange | 30 Year KTB | Future | 3,302 | 632 | 54 | 19-Feb |
| New York Mercantile Exchange | LNG Freight Route US Gulf to Continent RV (BLNG2-174) (Baltic) | Future | 1,500 | 1,500 | 23 | 29-Jan |
| Eurex | Bloomberg Sterling Liquid Corporate Index | Future | 1,359 | 16 | 21 | 05-Feb |
| Chicago Mercantile Exchange | Micro JPY/USD | Future | 1,176 | 203 | 18 | 26-Feb |
| Cboe Digital Exchange | Ether | Future | 736 | 187 | 13 | 11-Jan |
| NASDAQ OMX | OMXSS30 ESGGI | Future | 324 | 240 | 7 | 21-Mar |
| Eurex | STOXX Europe 600 SRI | Future | 154 | 54 | 2 | 22-Jan |
| MATba ROFEX | Bonar Law | Future | 122 | 112 | 6 | 01-Mar |

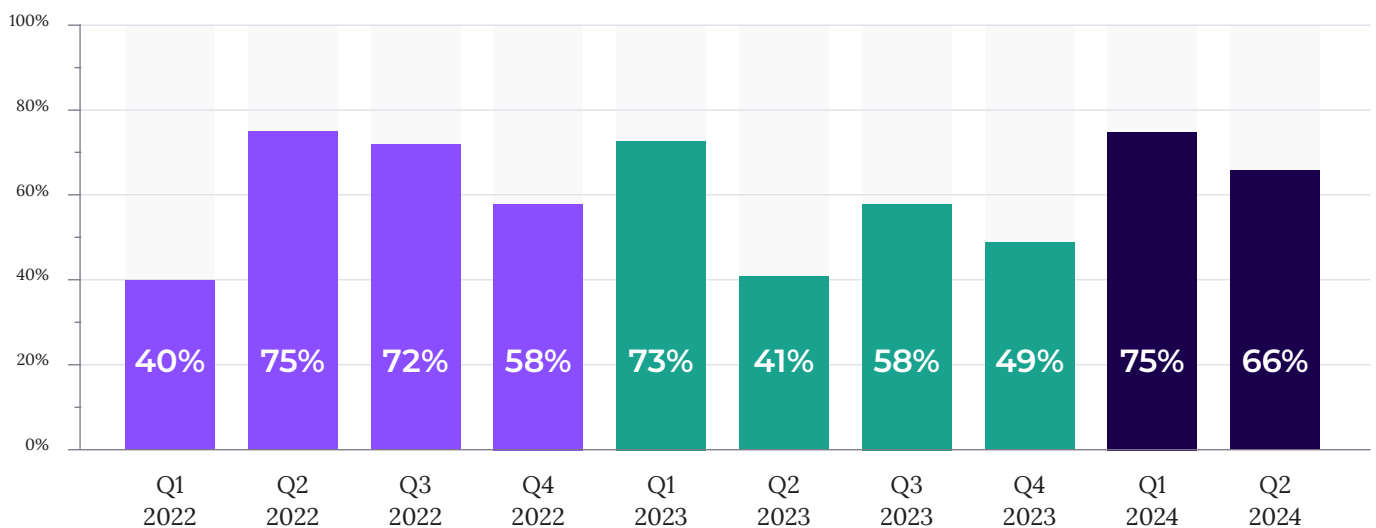
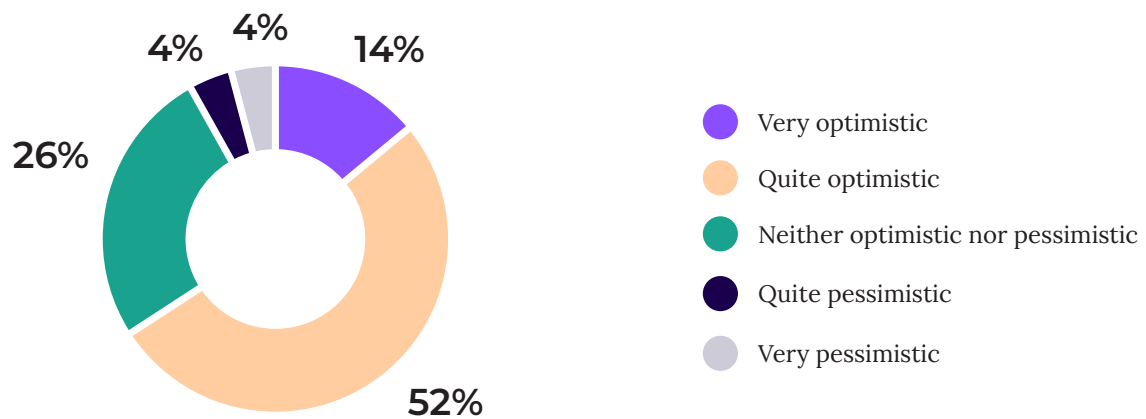
Sentiment



Sentiment among proprietary trading firms about business performance over the next three months fell back this quarter but remained high. Overall 66% of the Expert Network were either very or quite optimistic about the coming

quarter. However, 8% were pessimistic, compared to no respondents last quarter. In addition the number of very optimistic respondents dropped from 24% to 14%.

How optimistic are you about the performance of your business over the next three months?



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