

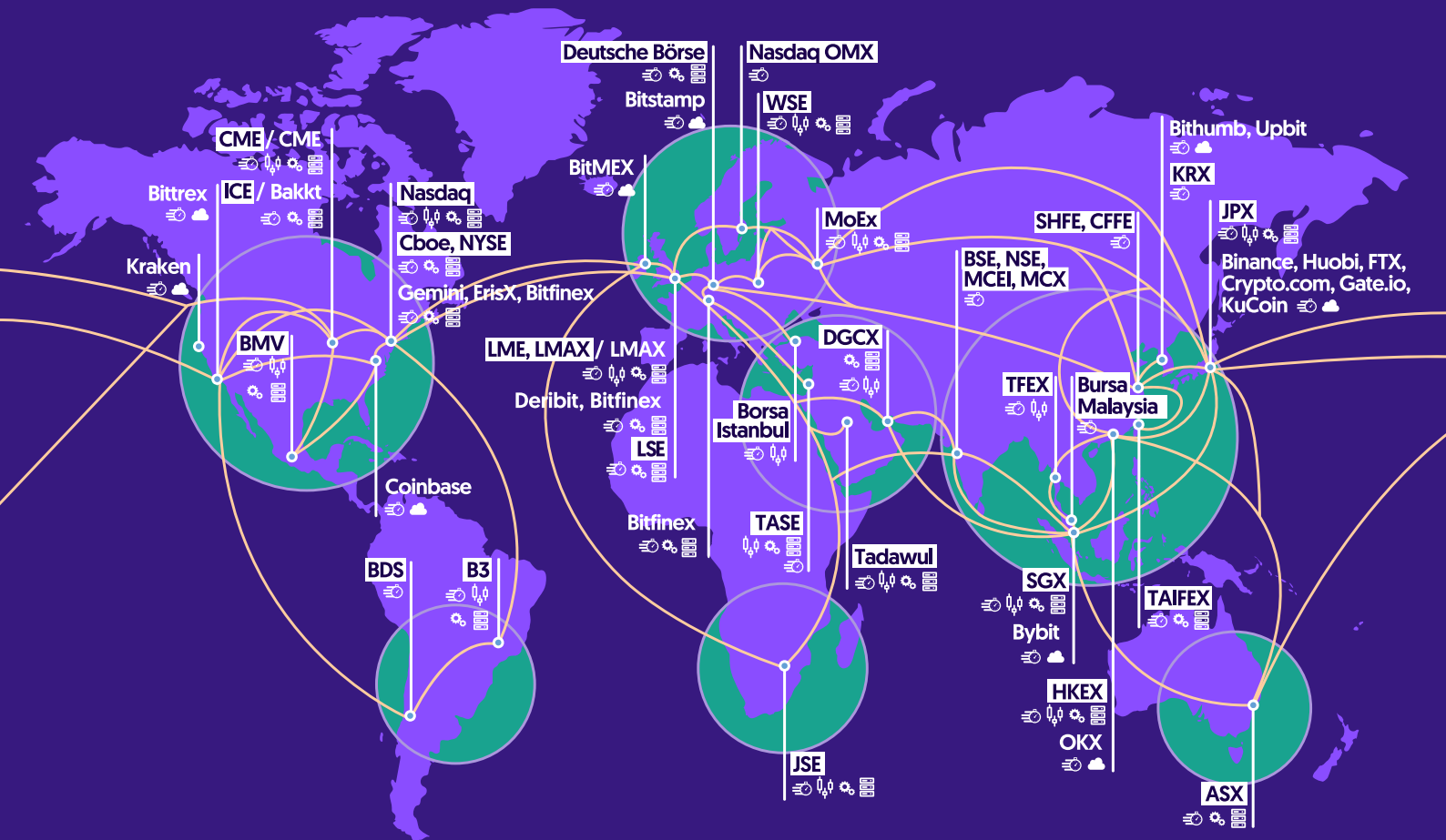
Proprietary Trading Management Insight Report

Q3 2022

Produced in association with

AVELACOM





**#1 ULTRA LOW LATENCY
IT INFRASTRUCTURE
ACROSS TRADFI, CEFI
AND DEFI MARKETS**
Optimised for market makers
and arbitrage traders

SERVICE COVERAGE

Traditional exchanges
Crypto exchanges

-  Low Latency Connectivity
-  Colo
-  Market Data & Order Entry
-  Hardware-as-a-Service (HaaS)
-  Low Latency Cloud Access



Table of Contents

PAGE 3

SECTION 1: H1 REVIEW

Profitability and performance

Challenges and barriers to growth

The impact of the crypto crash

PAGE 7

SECTION 2: TECHNOLOGY

Technology set-ups

The provision of services to the prop market

PAGE 9

SECTION 3: CONTRACTS AND MARKETS

The Avelacom Exchange Growth Index

New contract watch

PAGE 11

SECTION 4: Q&A WITH: BURSA MALAYSIA DERIVATIVES

PAGE 13

SECTION 5: SENTIMENT AND OUTLOOK



H1 2022 Review

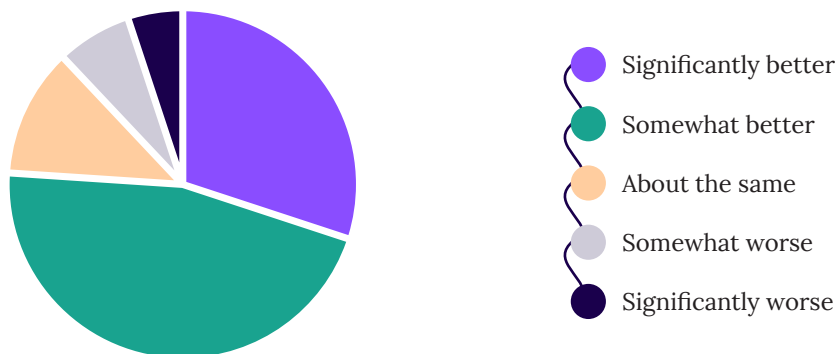
In this section, we take a look at how proprietary trading firms performed during the first half of 2022 and some of the challenges that they faced. All survey data in this report is taken from a survey of the Acuiti Proprietary Trading Expert Network – a group of over 100 senior executives in the global market.

Profitability and performance

The first half of 2022 has been exceptionally volatile as the war in Ukraine caused disruption to global supply chains sending commodity and energy prices soaring in the first quarter. The market volatility that dominated the first half of 2022 has resulted in a relatively strong

performance from proprietary trading firms with 76% reporting a better than average six months, 30% significantly better. Volatility drives volumes, which benefits proprietary trading firms. But the entrenched volatility, defined by sharp intra-day two directional

Overall, when compared to an average year, how profitable was the first half of 2022 for your business?



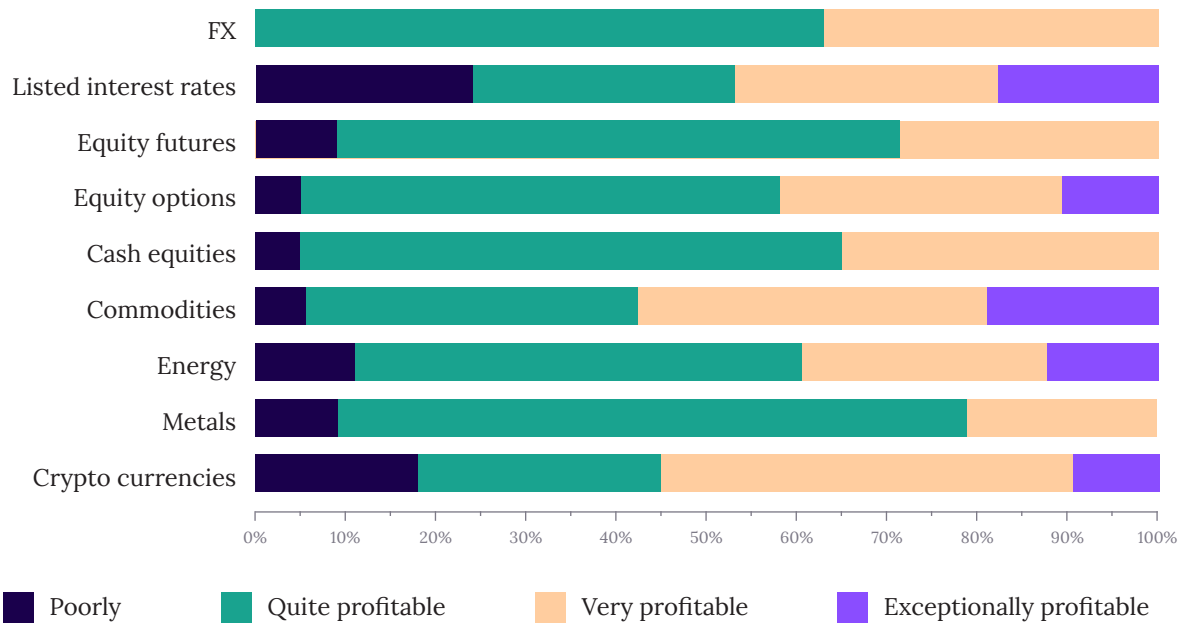
moves, has been of particular benefit forcing investors to continually hedge and reposition.

While most of the volumes spikes were seen in February and March, following the Russian invasion of Ukraine, persistent fears over a global recession and rising inflation drove

volatility in fixed income, energy and equity markets throughout the first half of the year.

Commodities, equity options and energy were strong performers for proprietary trading. There was a bifurcation in the UK in terms of rates with around a fifth of firms reporting a

How did the following asset classes perform for your business in H1 2022?



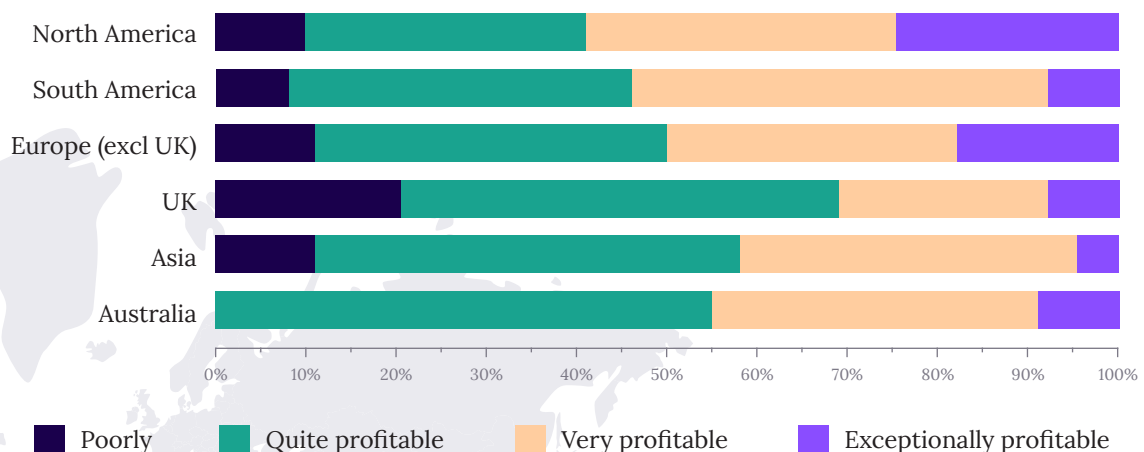
poor performance but 67% reporting very or exceptionally profitable trading in UK rates.

Firms based in Europe reported the strongest performance in commodities while US firms benefitted most from moves in energy markets. Overall 44% of firms that were predominantly algo but not ultra-

low latency reported a significantly better performance in the first six months of the year when compared with an average year.

This compares with 40% of predominantly point and click firms, 27% of ultra-low latency firms and 21% of firms that operate a hybrid of point and click and algo trading.

How did the following regions perform for your business in H1 2022?



Challenges and barriers to growth

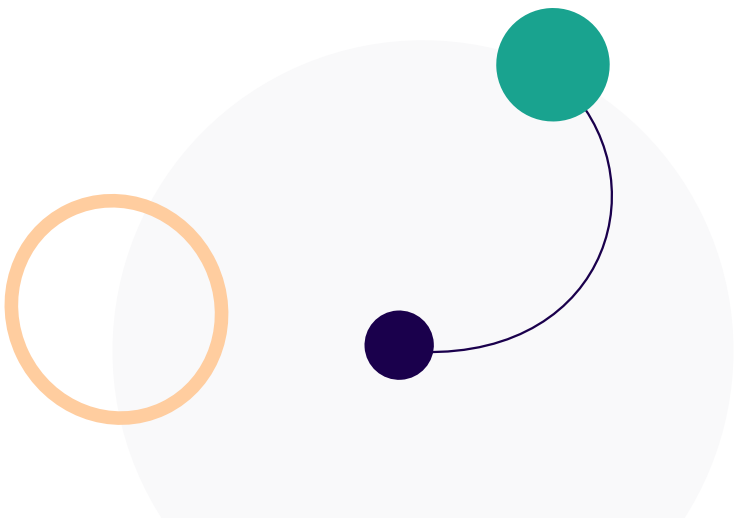
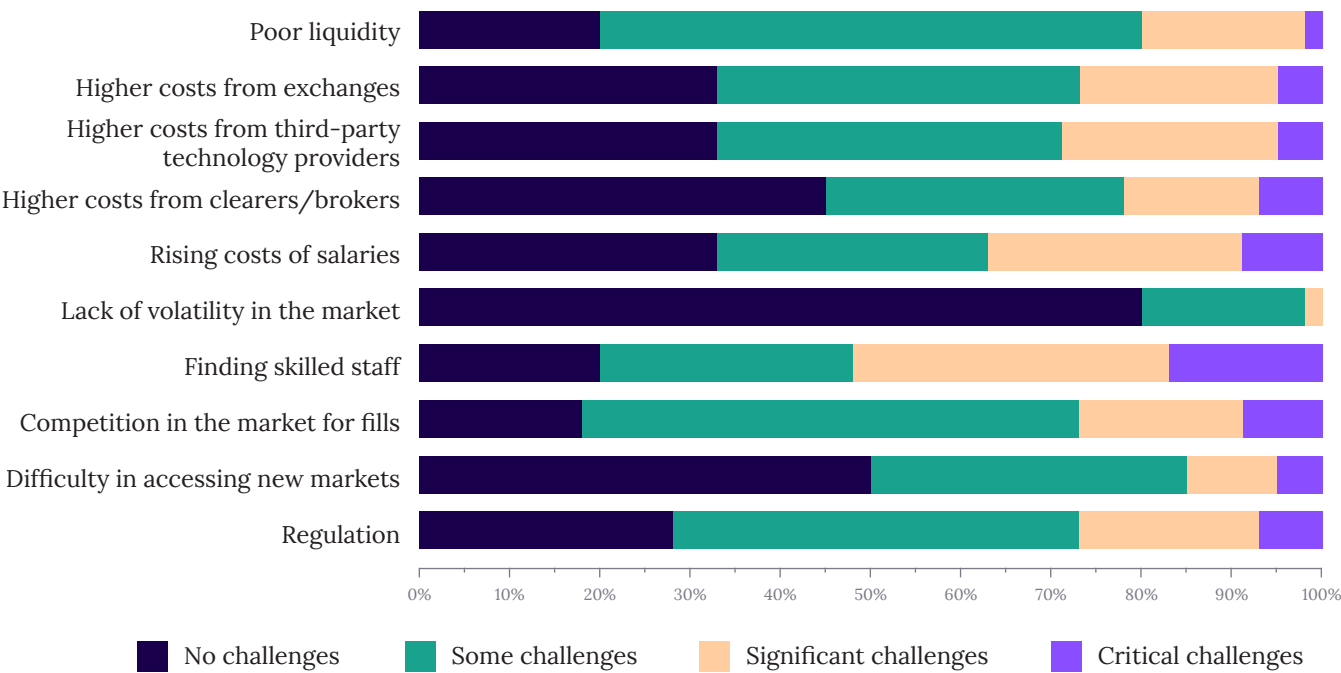
Finding skilled staff and dealing with rising wages were the two most significant challenges for firms during the first half of 2022. Costs are rising across the board with higher costs from exchanges, third-party technology providers and clearers/brokers being reported.

Finding skilled staff was most challenging in

Europe where 76% of respondents reported significant or critical challenges. Firms in Asia also reported major pressure from staff shortages.

Clearing fees appear to be rising fastest in the UK where almost a third of firms reported rises. In the US, competition for fills was the biggest challenge.

During the first half of 2022, how much of a challenge did the following pose to your business?



The impact of the crypto crash



Q2 2022 was a brutal quarter for digital assets. According to data from coinmarketcap.com, the total market capitalisation of cryptocurrencies fell by more than \$1tr to, following a similar decline in the last two months of 2021.

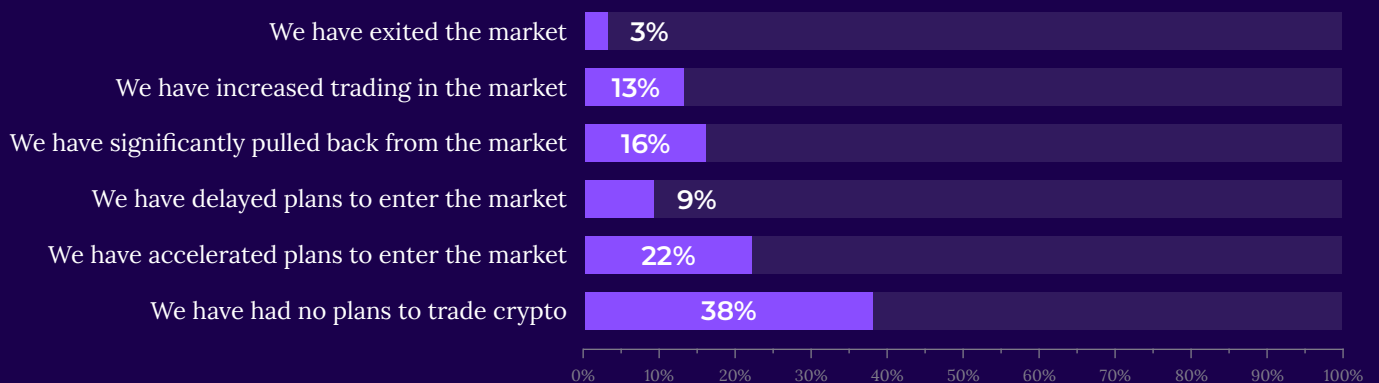
The falls were more than just a bursting of a bubble. The collapse of Luna and its associated stablecoin Terra called into question the whole integrity of swathes of the native market structure.

Following that collapse, hedge fund 3 Arrows Capital fell kicking off a contagion that so

far has resulted in both Celsius and Voyager Digital, two of the markets largest lenders, falling into administration.

Despite the turmoil, only 3% of proprietary trading firms in the Expert Network have exited the market. However, 16% have pulled back significantly. Encouragingly for the market overall, though, 22% have accelerated plans and 13% increased trading as a result of opportunities identified both in the relative low current price and the volatility in the market.

What impact has the recent fall in prices in the crypto market had on your business?



Technology:

Set-ups and provision to proprietary trading firms

This quarter, Acuiti asked members of the Expert Network about how technology was set up in their firms in terms of outsourcing to a third-party vendor.

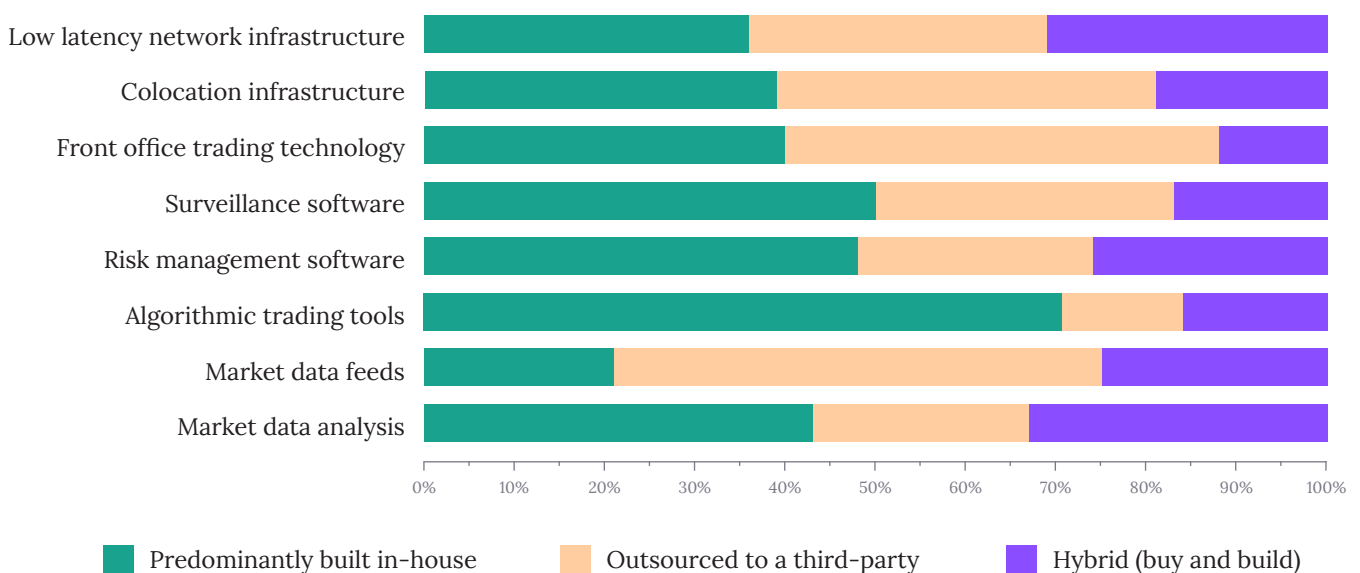
Members of the Expert network reported high levels of in-house build, a factor particularly prevalent among ultra low-latency trading firms, which typically built most if not all technology processes inhouse.

While it is little surprise that algorithmic trading tools are predominantly built inhouse owing to the intellectual property contained

within them, the high percentage of firms building their own risk management and surveillance tools is striking considering the number of third-party vendors developing software in these markets.

This suggests that the unique requirements of proprietary trading firms within these functions is not fully covered by vendors.

Which of the following technology process do you outsource to a third-party and which do you build in house?



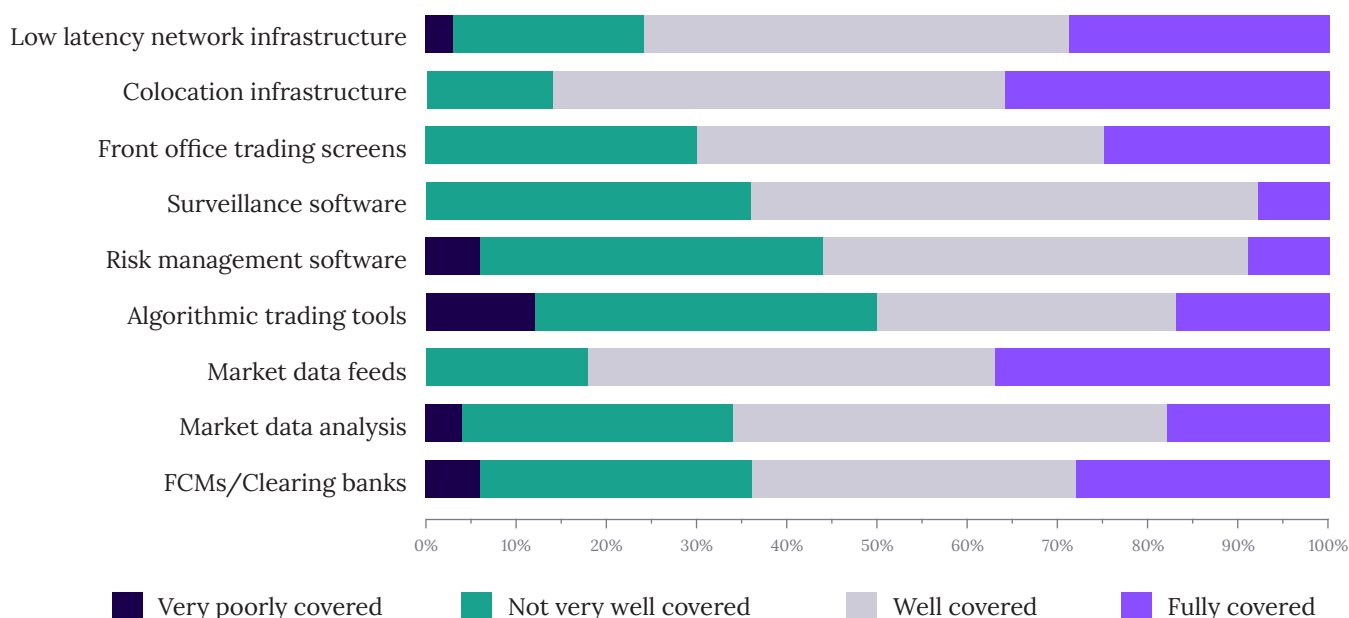
This is supported by the fact that just under half of respondents felt that the proprietary trading community was not well covered by third-party risk management providers. Point and click and hybrid firms were most likely to report a lack of coverage for risk management software. These firms also reported demand for more third-party market data analysis tools.

Market data feeds were the area best covered

by third-party vendors while colocation and low latency network infrastructure were also said to be well covered.

Ultra-low latency and predominantly algorithmic trading firms were most likely to report that the market for FCMs could be better covered, owing to the relative lack of banks or non-bank FCMs providing specialist services to these types of firm.

How well served in terms of choice in the market and understanding of your business do you think the proprietary trading community is by service providers in the following areas:

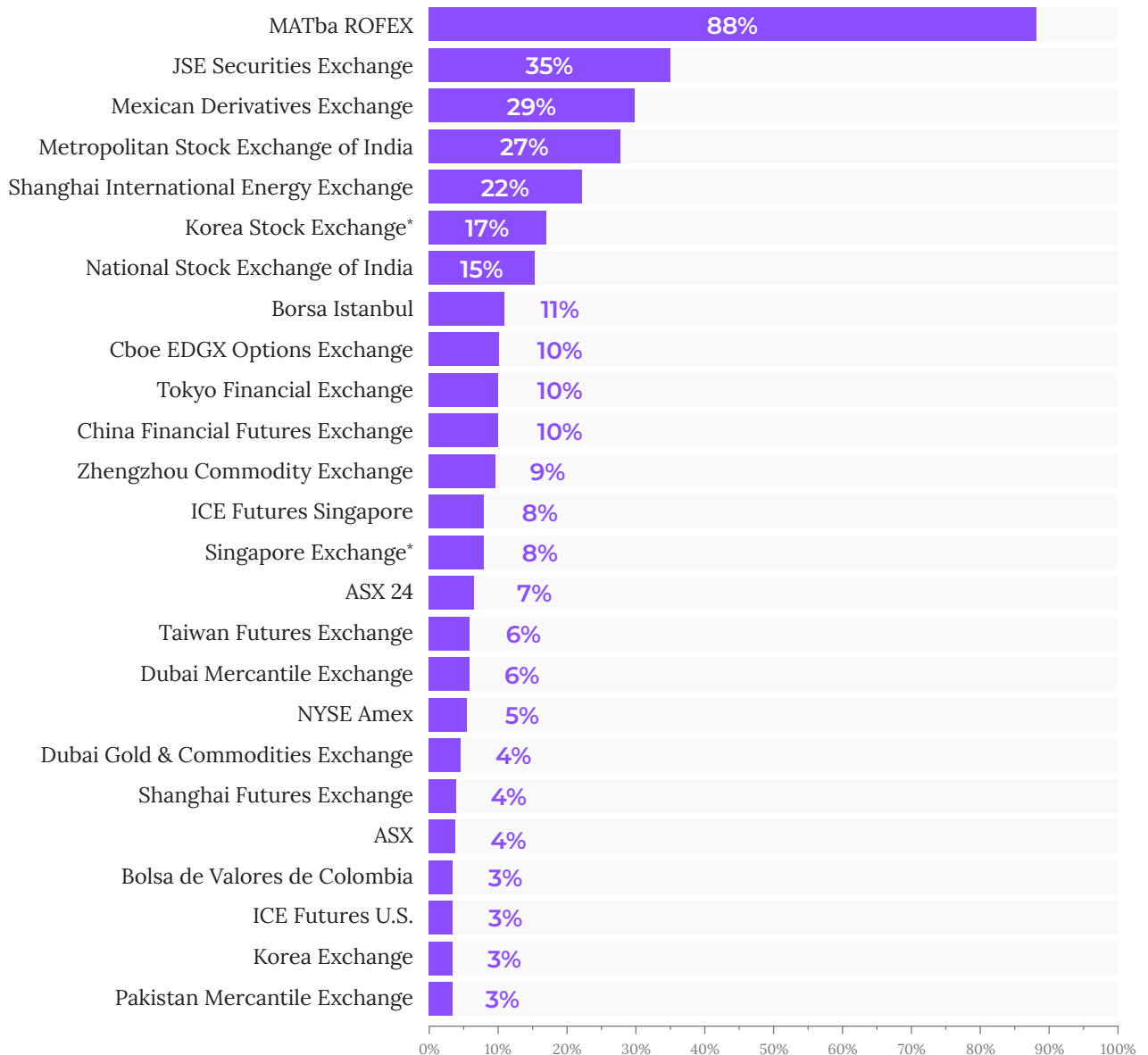


Contracts and markets

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 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	Contract Name	Type	Volume	Open Interest	Average Daily Volume	Launch Date
Asia Pacific Exchange	Bitcoin	Future	277,843	1,092	4,410	Apr-12
New York Mercantile Exchange	Micro Copper	Future	130,331	1,603	2,036	May-02
Coinbase Derivatives	Nano Bitcoin	Future	117,553	3,545	1,896	Jun-27
Multi Commodity Exchange of India	Gold Mini	Option	64,807	1,409	1,012	Apr-25
Chicago Mercantile Exchange	Russell 2000 Annual Dividend Index	Future	6,087	11,034	95	Apr-11
New York Mercantile Exchange	Micro WTI Crude Oil	Option	2,266	1,178	35	Jun-06
Chicago Board of Trade	1-Year Eris BSBY Swap	Future	1,000	-	15	Apr-11
Dubai Financial Market	Micro DME Oman Crude Oil	Future	204	3	4	Jun-01
Chicago Board of Trade	Canadian Western Red Spring Wheat FOB Vancouver Financially Settled (Platts)	Future	150	50	2	Jun-13
Cboe Europe Derivatives	Cboe Sweden 30 Index	Future	101	66	1	Apr-27
New York Mercantile Exchange	Copper Week 3 Wednesday	Option	80	7	1	May-02
Chicago Mercantile Exchange	Nasdaq-100 Annual Dividend Index	Future	57	62	-	Apr-11
Cboe Europe Derivatives	Cboe Norway 25 Index	Future	35	35	-	Apr-27
Cboe Europe Derivatives	Cboe Italy 40 Index	Future	20	10	-	Apr-27
NASDAQ PHLX	Nasdaq 100 Volatility Index	Option	18	-	-	Jun-14
New York Mercantile Exchange	Micro NY Harbor RBOB Gasoline	Future	11	9	-	Jun-27
Dubai Gold and Commodities Exchange	Israeli Shekel-US Dollar	Future	10	-	-	Jun-16
Chicago Board of Trade	3-Year Eris BSBY Swap	Future	4	-	-	Apr-11
New York Mercantile Exchange	Micro NY Harbor ULSD	Future	3	1	-	Jun-27
Tokyo Commodity Exchange	LNG (Platts JKM)	Future	3	1	-	Apr-04

The AVELACOM Emerging Exchange Profile: Bursa Malaysia Derivatives



2021 was a record year for Bursa Malaysia Derivatives, the derivatives market of Bursa Malaysia Berhad. In this Q&A, Avelacom talks to Samuel Ho Hock Guan, the chief executive of Bursa Malaysia Derivatives about the drivers behind the recent growth and the appeal of the exchange to the international proprietary trading community.

2021 was a record year for derivatives trading on the exchange, where are you seeing the most growth?


Supply chain disruption brought about by the Covid-19 pandemic significantly impacted the commodity markets in 2021, resulting in high price volatility. As the global hub for palm oil price discovery, Bursa Malaysia Derivatives has seen historical high full year trading volume for its Crude Palm Oil Futures (FCPO) contract with 15.6m contracts traded in 2021. The trading momentum sustained into 2022, as the commodity markets faced new challenges such as geopolitical tensions and fears of recession. As of June 2022, foreign institutions accounted for 50% of the total FCPO trading volume, a substantial growth from 40% in December 2021.

On 4 October 2021, the Exchange launched the East Malaysia Crude Palm Oil Futures (FEPO) contract, which was designed to meet the needs of palm oil market players in Sabah and Sarawak – the Malaysian states that contributed 45% of the country's total CPO production in 2021. The FEPO contract offers greater price discovery and

strategically located physical delivery ports for the market players, as well as arbitrage opportunities for international traders participating in the Chinese RBD Palm Olein Futures market.

Since its launch, successful physical tenders have taken place at three existing port tank installations in East Malaysia. In total, there are 10 approved PTIs for this new contract. The physical delivery of both FCPO and FEPO is also integrated with the Malaysian Sustainable Palm Oil (MSPO) certification requirement, making them the first-in-the-world physically delivered commodity derivatives contracts with a sustainable requirement mandated for delivery.

Apart from product development, Bursa Malaysia Derivatives has also enhanced its trading ecosystem to better align with global market practices. The After Hours (T+1) Trading was launched on 6 December 2021 as a new avenue for market participants to react to any major price movement during the opening of US market and the closing of the European market. All commodity and equity index derivatives contracts on the Exchange can be traded during the T+1



session from Monday to Thursday, 9pm to 11.30pm Malaysia time (UTC +8).

What challenges do proprietary trading firms face when connecting to the exchange? What are the processes and relationships required to trade?

Proprietary trading firms typically face two challenges when connecting to the exchange – access and cost. Recognising these challenges, Bursa Malaysia Derivatives has established a long-term partnership with CME Group, whereby our products are listed for trading on CME's Globex electronic trading platform.

Proprietary trading firms that are already connected to CME Globex do not need to invest in any new infrastructure and would have no difficulty gaining access to our market.

The level of intermediation required is also one of the major cost factors for proprietary trading firms. Therefore, the Exchange is embarking on the establishment of inter-broker relationships between Futures Commission Merchants and our local Clearing Participants to strike a favourable arrangement in favour of the proprietary trading firms.

What colo facilities do you offer?

We offer two colo options. The first is the direct connection to Bursa's data centre, while the second is a connection to one of CME's Globex Hubs around the world.

What have you done to increase the appeal of the market to international prop firms?

The recent launch of the After-hours (T+1) Trading Session has provided an avenue for

market participants to better manage their price risk exposure based on real-time global developments in different time zones. This has increased the robustness of our ecosystem and made our market more appealing to global proprietary trading firms. Between January 2022 and June 2022, the trading contribution from international proprietary trading firms increased in ADC by 48%, from 30,845 to 45,672 contracts.

Where do you see the most growth in terms of prop engagement?

We have seen increased participation from overseas proprietary trading businesses, especially from India and US, indicating rising interest from these regions.

What upcoming launches do you have in the pipeline?

We are targeting to launch a revamped Gold Futures (FGLD) contract at the end of the 3Q or in early of 4Q 2022. The revamp of the FGLD contract is aimed at providing investors with greater trading and hedging opportunities amidst volatility in the gold market. The new FGLD contract will be quoted in US Dollar (USD) but settled in Malaysian Ringgit (MYR). Bursa Malaysia Derivatives is also exploring other vegetable oils in order to offer a diverse trading strategy proposition to the trading community, such as the intercommodity spread trading. This would provide traders with a platform to trade their views on the relative fundamentals for various commodities. Traders can also arbitrage on prices of the same commodity product listed on various exchanges or in different currencies.

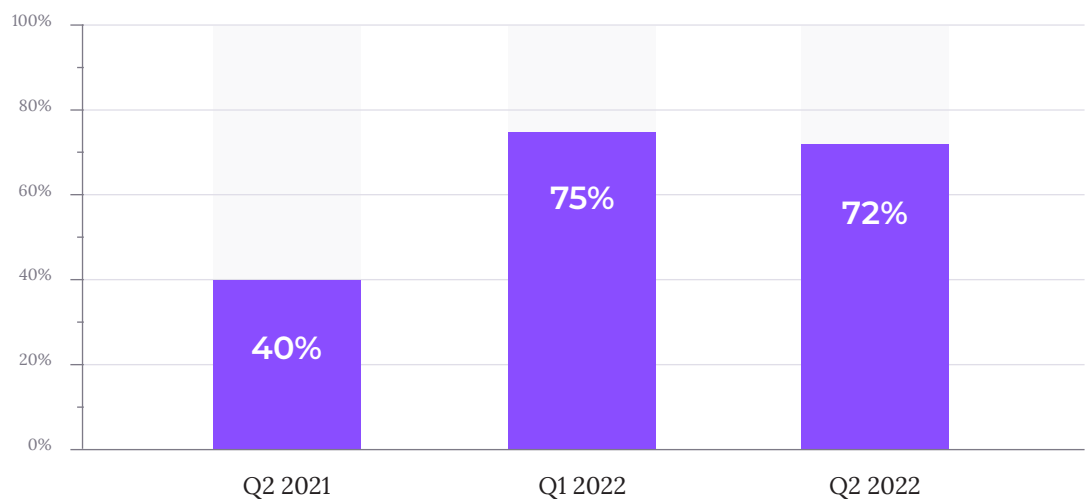
For enquiries on Bursa Malaysia Derivatives products and access to the market, please contact:
Jeremy Quah, Head of Intermediaries: jeremyquah@bursamalaysia.com
Wilson Cheang, International Development: shianwei@bursamalaysia.com

Sentiment and outlook

Optimism among senior proprietary trading executives fell slightly last quarter with 72% saying that they were either quite (52%) or very (20%) optimistic about the coming quarter. Respondents from the UK and APAC

were the most optimistic with 82% and 75% respectively either quite or very optimistic, firms from Europe the least with 62% expecting a strong quarter ahead compared with a third of US-based respondents.

Percentage of respondents who are either very or quite optimistic about their business performance over the next quarter



ARE YOU A SENIOR PROPRIETARY TRADING EXECUTIVE ?

Join Acuiti live in London!

- ✓ Closed-door, invite-only event exclusive to Senior Executives at Hedge Funds only
- ✓ Participate in a closed-door discussion with your peers and industry experts
- ✓ Connect with fellow industry peers



WHEN:

Wednesday,
November 9th, 2022
15:00 - 19:00

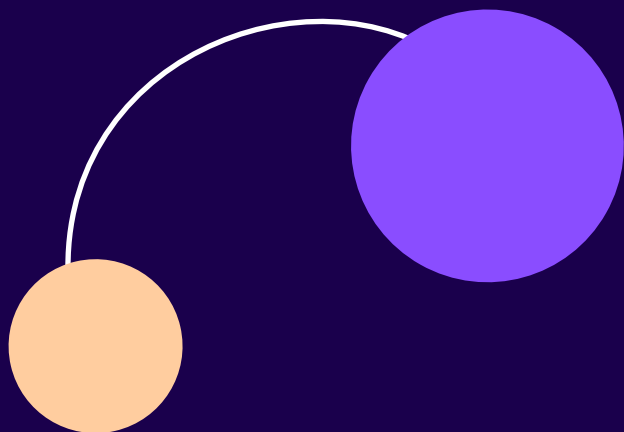


WHERE:

Pewterer's Hall,
Oat Ln, Barbican,
London EC2V 7DE



REQUEST YOUR INVITE HERE



acuti  management
intelligence

0203 998 9190

acuti.io

info@acuti.io

Copyright © 2022 Acuti. All rights reserved.