

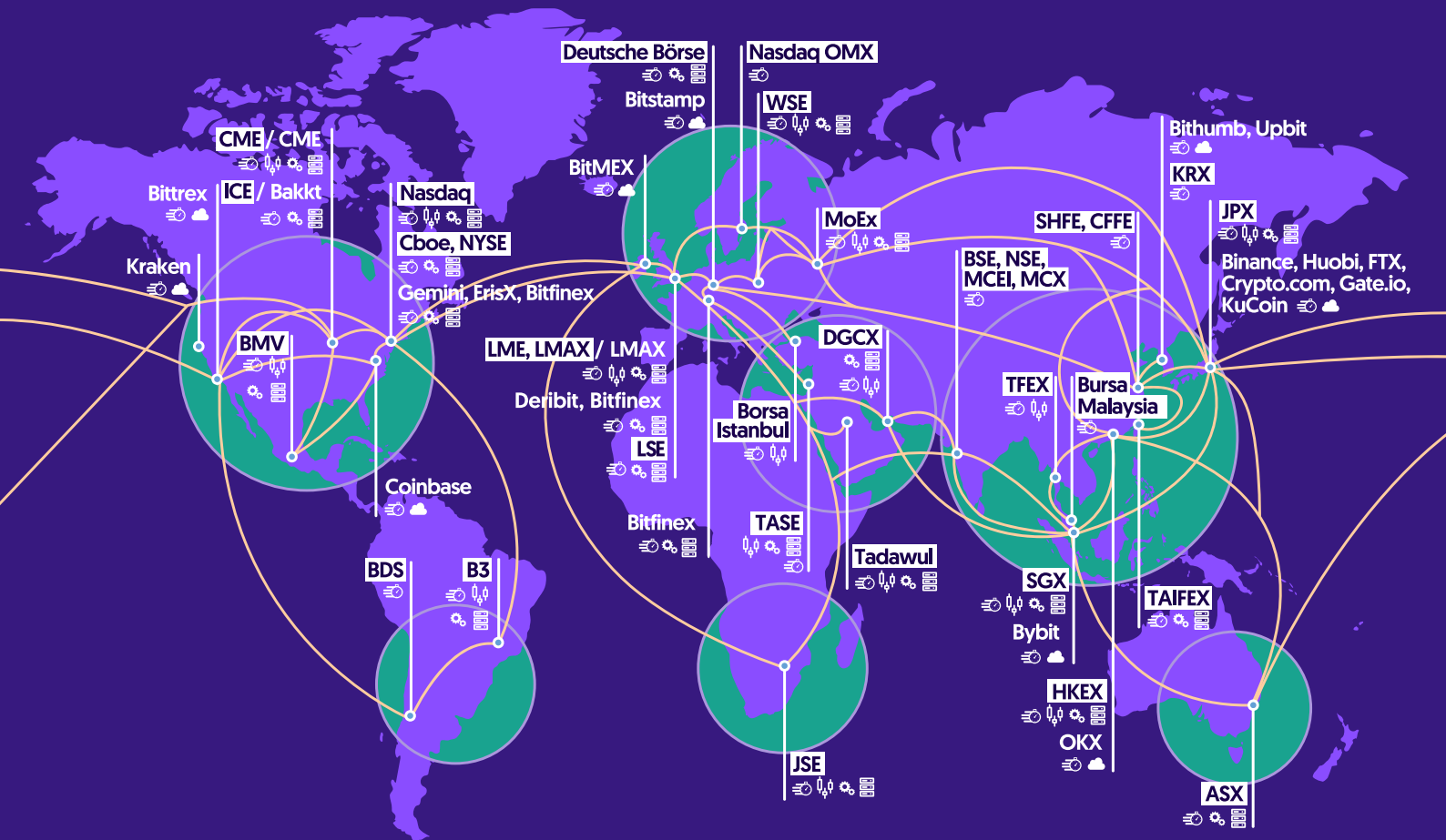
# Proprietary Trading Management Insight Report

Q4 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

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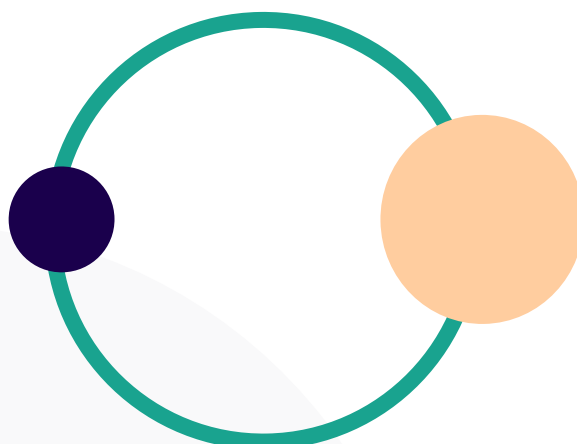
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# The outlook for 2023

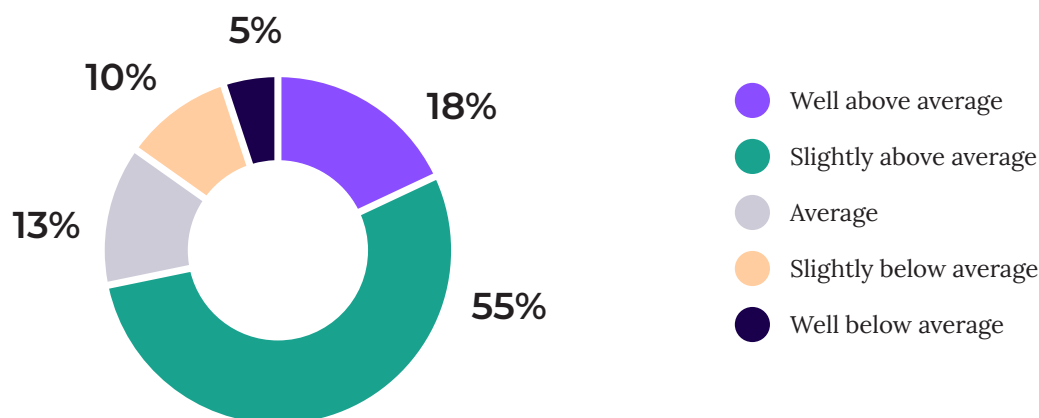
The contents of this report are based on a survey of the Acuiti Proprietary Trading Expert Network, a group of over 80 senior executives at proprietary trading firms from across the global market. Each quarter, members of the network suggest topics to be covered and provide their responses via an anonymous survey of the network.



This year has seen the most sustained volatility of the post-2008 period, as rates markets continue to adjust to higher global inflation and all asset classes face multiple storms in the wake of war in Europe and expectations of economic slowdown.

These factors show no sign of abating next year. For proprietary trading firms, this should mean the continuation of fruitful trading conditions. The majority of Acuiti's prop trading network is expecting 2023 to be a stronger than average year for business.

**Looking ahead to 2023, how strong a year for your business do you expect it to be?**



# Interest Income

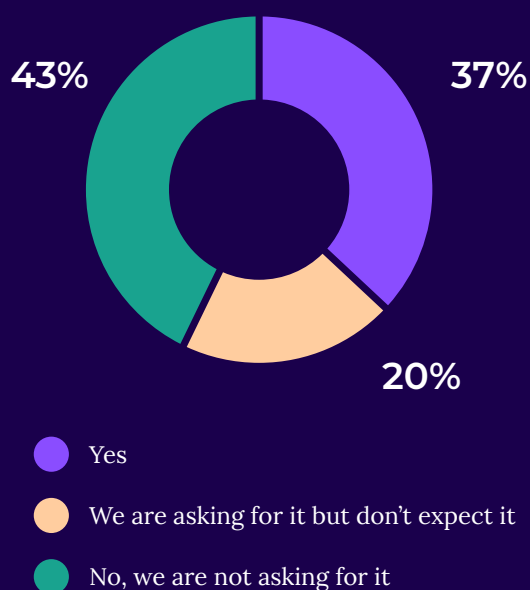


Rising rates are changing long established market conditions, but they are also increasing the importance of concepts that had previously been less relevant, such as sell-side clearing providers earning interest on margin held on behalf of clients.

Prior to the 2008-crisis and the slump in global interest rates, clearing firms (FCMs) would make significant revenue from interest on client margin – reportedly over half of total income in some firms.

As FCMs have adapted to revenues streams without interest on client margin, and did not pay clients when rates were negative, a significant percentage of the Expert Network are expecting some rebate from their clearing providers for any positive gains on their margin.

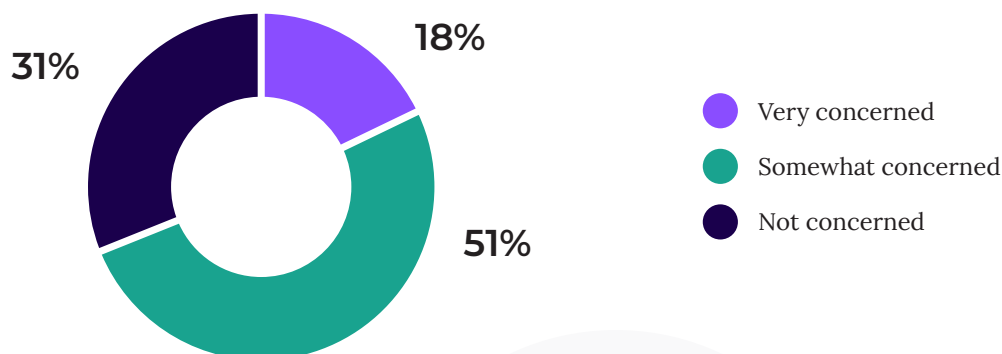
**With interest rates going up, are you expecting to be paid any positive gains that your clearing broker makes in interest income on the funds they hold as margin on your behalf?**



While volatility has been welcome for the prop trading community, the speed and magnitude of intraday moves has still put operations under stress during particularly acute episodes

of volatility. The implications this has for broader market structure was a concern for most of the network, with over two thirds expressing concern over market stability.

**How concerned are you about the fragility of financial markets based on recent volatility?**

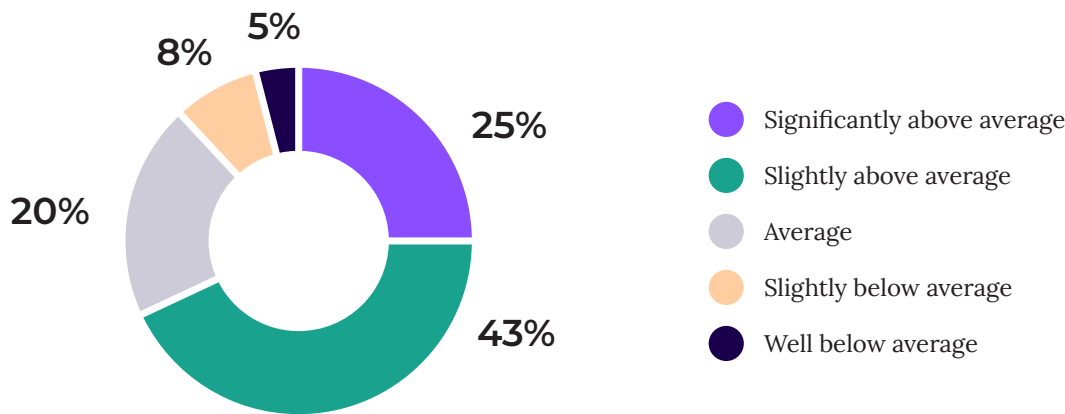


# Investment plans for 2023

The strong performance most firms have seen this year and expectations for another strong year in 2023 is being seen in investment budgets.

Most of the Expert Network are anticipating above average technology investment in 2023, with only a small minority of firms planning for a below average tech spend.

How big do you expect your technology investment budget for 2023 to be?



Interestingly, point and click firms were planning the largest increases in investment budgets for 2023, with hybrid algo and point and click firms also planning to sharply increase budgets. This reflects both the fact that firms across the market - whatever their strategies - have had a strong year, but also the increased requirement for these firms to invest to increase the sophistication of their trading strategies to remain competitive.

As evidenced by the charts on the next page, the main target for increased tech spend will

be improving latency on existing markets, which points to the increasing importance of speed in times of volatile market conditions and droughts of liquidity. About a third of the network is planning large investments in latency upgrades.

Connectivity to new markets was also a large area for investment, suggesting that many of the network are in expansionary mood. So were algorithmic trading tools, which firms need to continually invest in order to maintain a competitive edge.



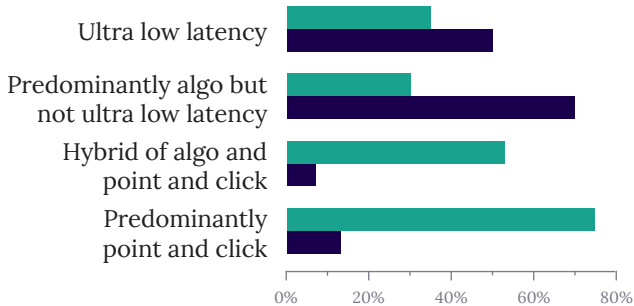
## What are your investment plans with regards to technology in 2023?

Small Investment

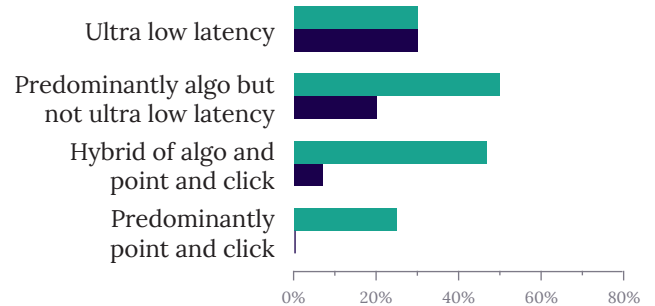
Large investment



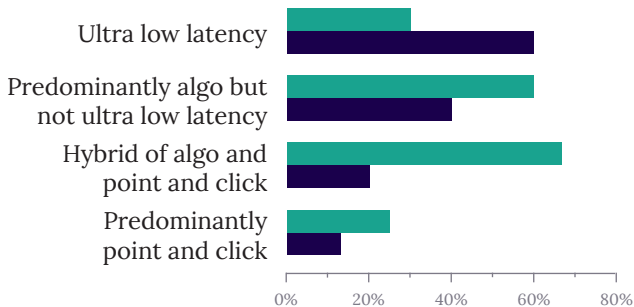
### Connectivity to new markets



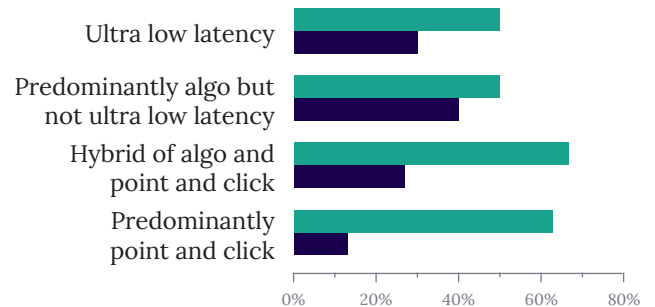
### Surveillance software



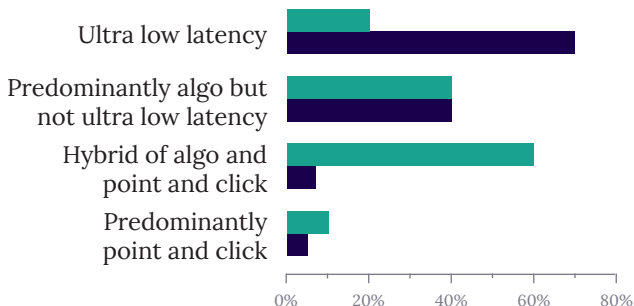
### Latency to existing markets



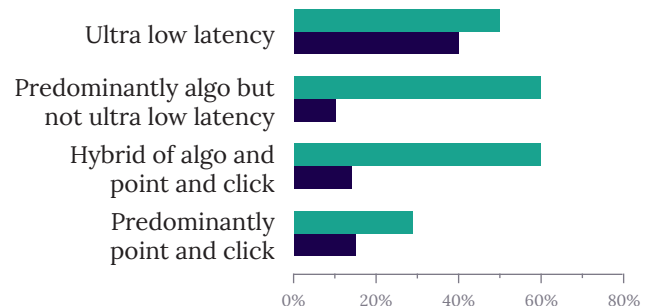
### Market data



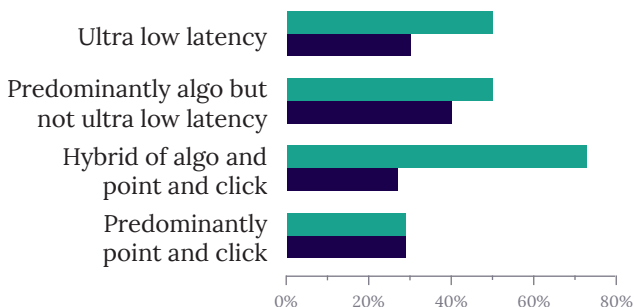
### Colocation infrastructure



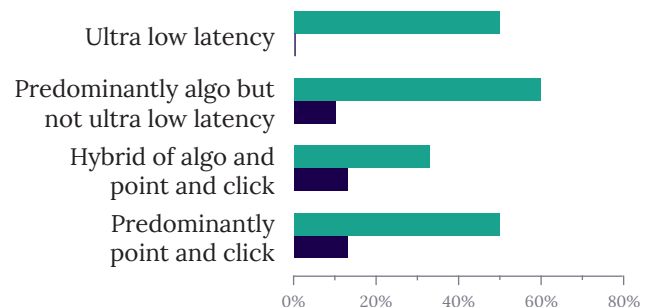
### Risk management software



### Algorithmic trading tools



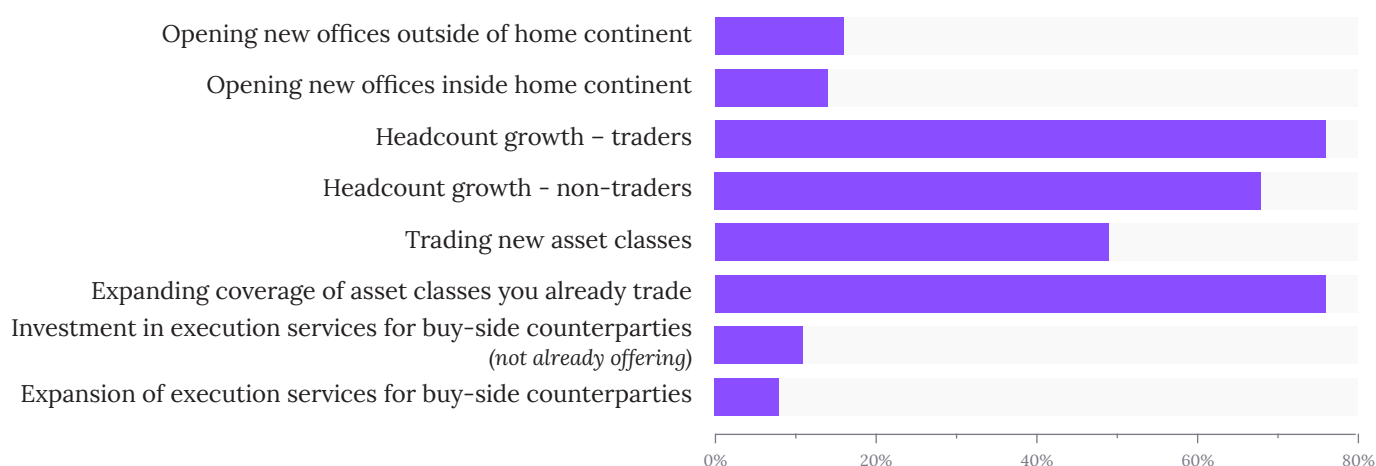
### Front office trading screens



Outside of technology, the main area that prop firms are planning to invest in is headcount. Most of the network will ramp up staffing next year, with plans to grow both the headcount of both traders and non-traders they employ. This headcount expansion is likely to exacerbate the shortage of staff and wage inflation across

most regions that was reported in the Q2 Acuiti report. Almost half of firms were expecting to trade new asset classes, with cross-asset volatility opening up opportunities for trading in new markets. But more were planning to expand coverage of asset classes that they already trade in.

### What non-technology areas are you planning to invest in during 2023?



In terms of plans for expansion of asset class coverage and involvement, equity options were the product with most anticipated growth (see chart on next page). Most firms were planning on increasing or significantly increasing their exposures to this market.

However, there were strong regional differences in approaches to this asset class. Firms in the EU and UK were most likely to be planning to decrease exposures, while over three quarters of US-based firms were looking to increase equity options exposure in 2023.

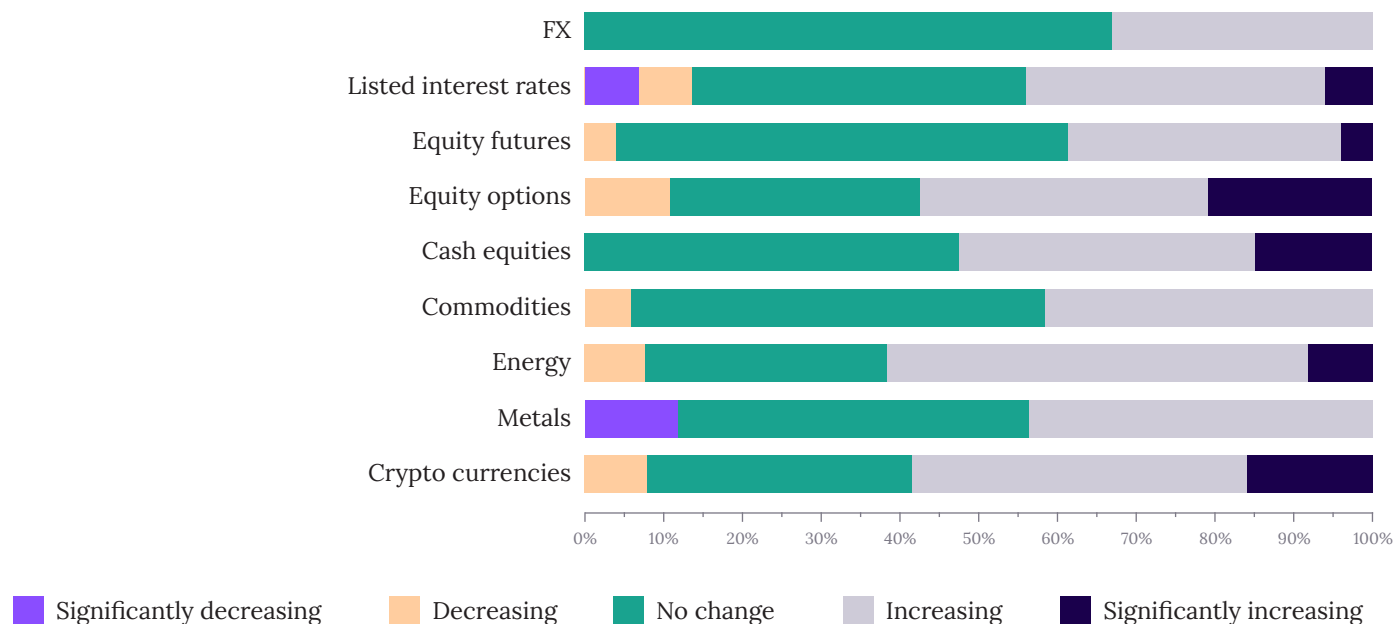
Firms in the UK are most likely to be targeting

an increase in exposures to energy and reducing their exposure to rates.

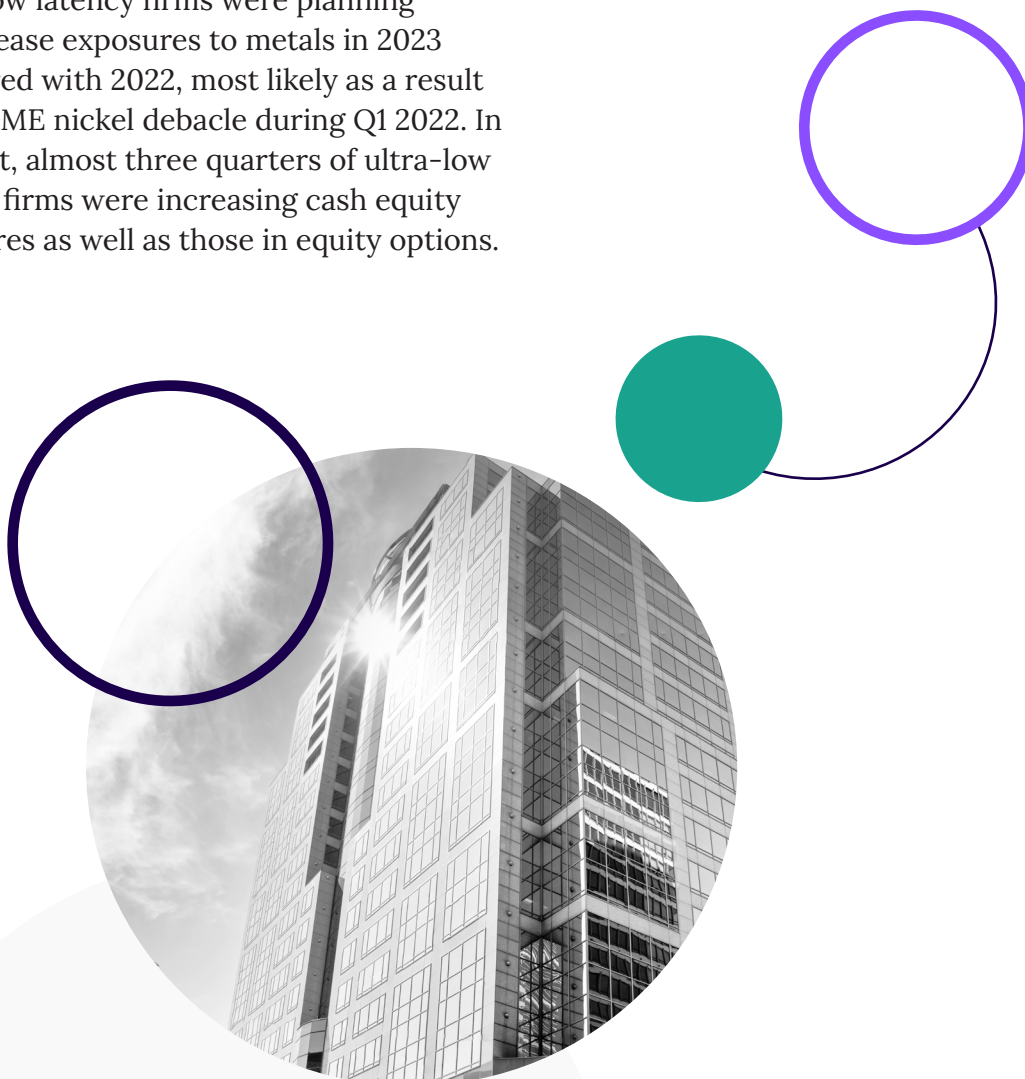
This is likely a reflection of the fact that proprietary trading firms are finding it difficult to trade the new Sonia risk free rate contract that replaced the Libor-based short sterling contract. As a result they are shifting their strategies to energy. UK firms are also increasing exposures to commodities.

Props in the US and Asia in particular were planning to ramp up their activity in cryptocurrencies (more on this, and DeFI below).

Are you currently or planning on increasing or decreasing your exposures in any of the asset classes you trade in 2023 compared with 2022?



Ultra-low latency firms were planning to decrease exposures to metals in 2023 compared with 2022, most likely as a result of the LME nickel debacle during Q1 2022. In contrast, almost three quarters of ultra-low latency firms were increasing cash equity exposures as well as those in equity options.



# Hot topics

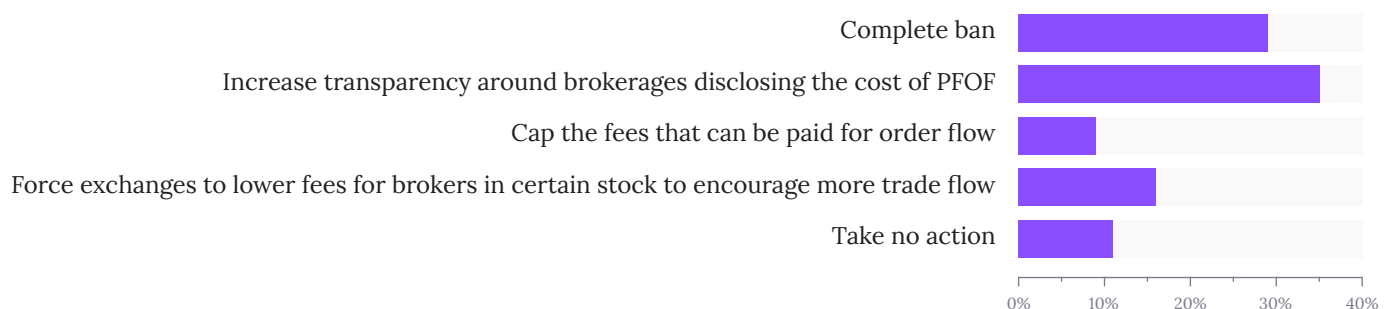


## SEC reforms to PFOF and tick sizes

In the US, the SEC is currently reviewing payment for order flow, the controversial practice whereby market makers pay brokerages to route orders to them. Only a minority of the network think that no reform

should come from the review. The most popular change was increased transparency around brokerages disclosing the cost of PFOF. But a noticeable amount also supported a complete ban of the practice.

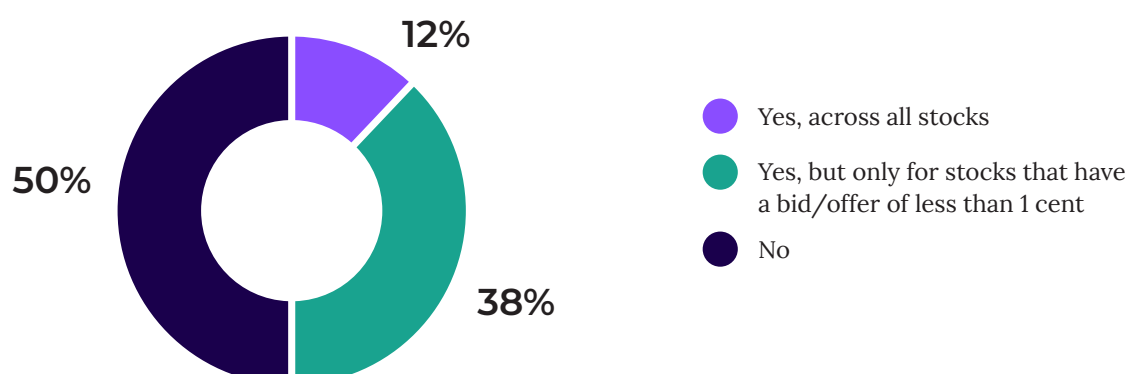
### What do action do you think the SEC should take with regards to its review into PFOF?



With regards to another potential SEC reform, the minimum tick size, the network was evenly split between those who did and didn't think it should be reduced to less than a penny.

Of those who did, most thought the change should only apply to tick constrained stocks with a bid/offer of less than one cent.

### Do you think that the SEC should reduce the minimum tick size increment to less than a "penny"?

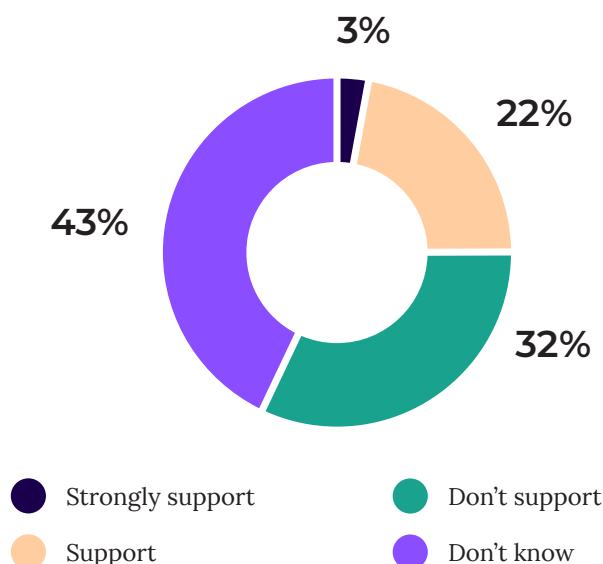


# Exchanges moving into FCM territory

FTX's CFTC proposals for reimagining the traditional model of FCM and exchange relationship continues to cause debate. Recently, CME announced intentions to establish its own FCM, a move that has divided opinion in the listed derivatives industry – both in assessing CME's motives for doing so and how viable the model would be.

That was also reflected in the prop network, where a substantial number of members were still undecided as to whether they supported CME's initiative or not. About a third of the network did not support the move, however, this was a higher proportion than those that did.

Do you support CME's move to establish a brokerage/FCM?



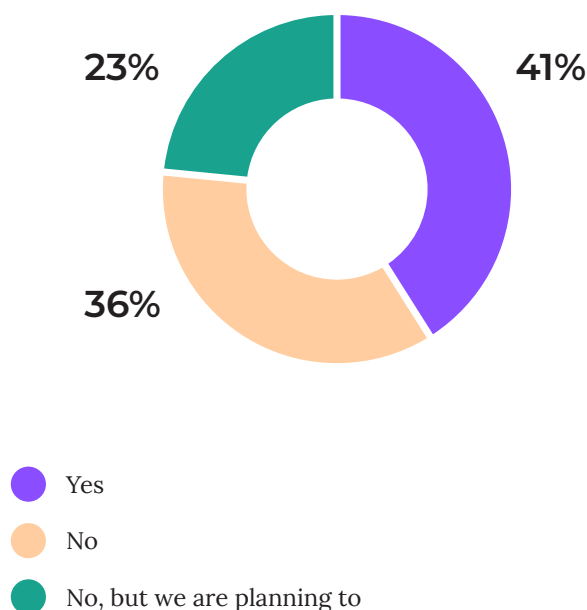
## Assessing DeFi

As noted above, the network's sentiment to cryptocurrency was still shown to be robust in this latest survey. For those that trade crypto derivatives, firms reported an increasing adoption of DeFi markets.

While about a third of firms were not planning on trading in these markets, the rest either were already or were planning to. Those that do trade on DeFi reported that the advantages were (in descending order) arbitrage opportunities, better liquidity, better market functionality and the ability to trade against different counterparties.

Those who were still staying out of the space mainly did so due to counterparty risk concerns. But they were also concerned about security of funds and also cited a lack of internal expertise.

Do you trade in DeFi markets?

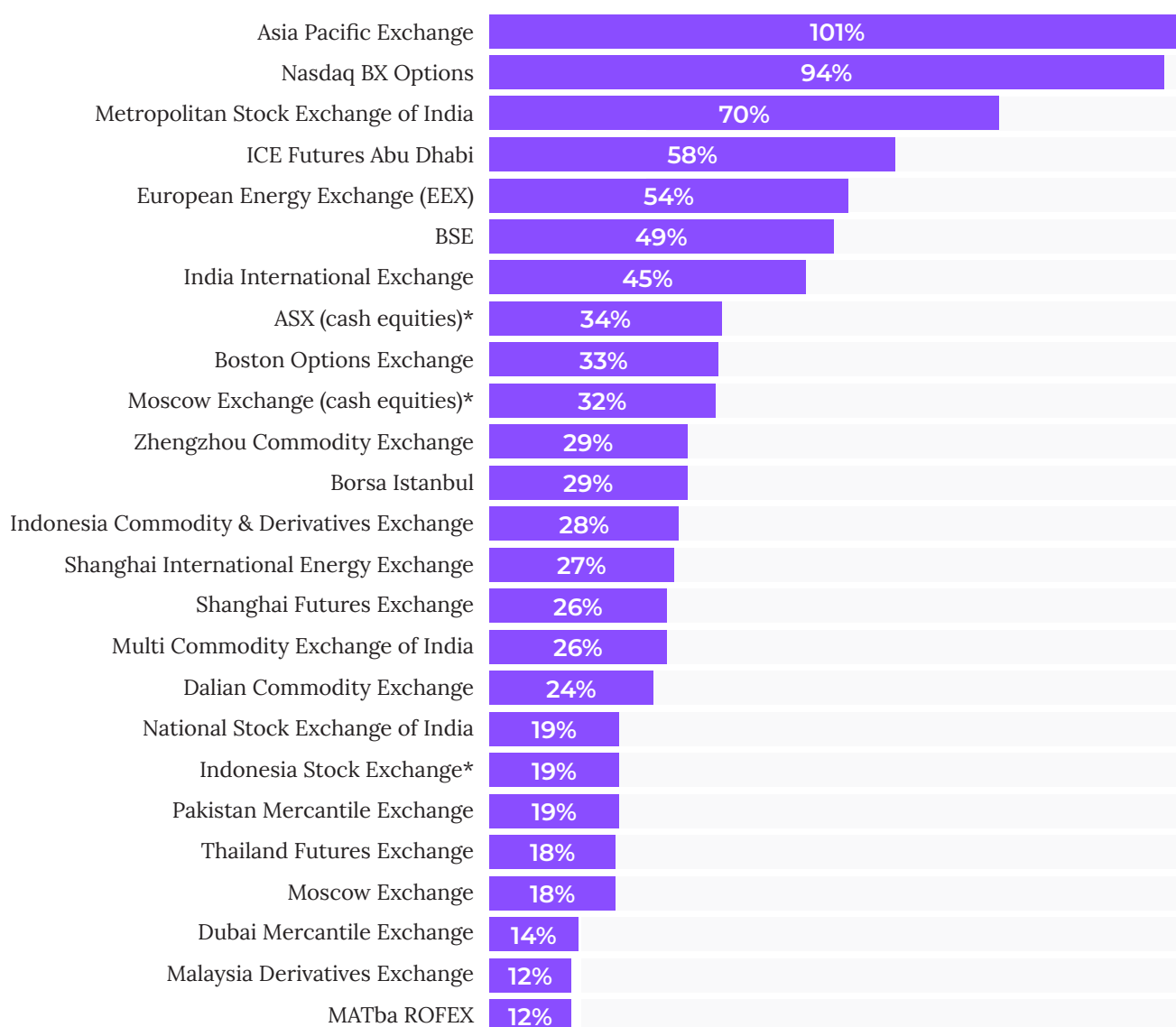


# Contracts and markets

## 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
Shanghai Stock Exchange	CSI 500 ETF	Option	4,282,137	418,104	203,911	17-Jan
China Financial Futures Exchange	CSI 1000 Index	Option		128,815	40,214	01-Mar
Coinbase Derivatives	Nano Ether	Future	1,701,996	9,679	38,681	28-Mar
China Financial Futures Exchange	CSI 1000 Index	Future		232,820	37,475	28-Mar
Zhengzhou Commodity Exchange	Rapeseed Oil	Option	214,422	18,089	4,661	24-Jan
Zhengzhou Commodity Exchange	Peanuts	Option	194,985	29,537	4,238	31-Jan
Dalian Commodity Exchange	Crude Soybean Oil	Option	206,455	46,295	3,128	07-Mar
Dalian Commodity Exchange	No.1 Soybeans	Option	194,086	31,954	2,940	28-Feb
Dalian Commodity Exchange	No.2 Soybeans	Option	105,656	9,748	1,600	01-Mar
Asia Pacific Exchange	Silver Perpetual	Future	4,325	28	196	14-Mar
Chicago Mercantile Exchange	Event Contract Options on E-mini S&P 500	Option	10,294	-	153	08-Feb
Chicago Mercantile Exchange	E-mini S&P Biotechnology Select Industry	Future	7,207	53	107	21-Jan
Chicago Mercantile Exchange	Event Contract Options on E-mini Nasdaq-100	Option	7,014	-	104	08-Feb
Chicago Mercantile Exchange	E-mini S&P Oil & Gas Exploration & Production Select Industry	Future	3,825	81	57	24-Jan
New York Mercantile Exchange	Event Contract Options on Natural Gas (Henry Hub)	Option	2,807	-	42	08-Feb
Chicago Mercantile Exchange	Event Contract Options on E-mini Russell 2000	Option	2,751	-	41	08-Feb
Chicago Mercantile Exchange	E-mini S&P Retail Select Industry	Future	2,659	105	39	10-Jan
New York Mercantile Exchange	Event Contract Options on Silver	Option	2,374	-	35	24-Jan
New York Mercantile Exchange	Event Contract Options on Gold	Option	2,310	-	35	28-Mar
Chicago Board of Trade	Event Contract Options on E-mini Dow	Option	1,892	-	28	21-Mar

Source: EuromoneyTRADEDATA

# Q&A with SGX

SGX has just hit record annual revenues and recently recorded an all-time high for derivatives activity in September. In this quarter's Q&A, Acuiti caught up with Pol de Win, Head of Global Sales & Origination at SGX, to discuss how the exchange is adapting for the needs of a global client base and where its prop trading members are seeing opportunities.



### What products have you seen success in during 2022?

We have started to see the value of our multi-asset strategy come through. For the last five to six years, we've been building on our equities franchise and strengthening our position across other asset classes. If you look at the volumes and open interest of our commodities and FX products, they've continued to grow and have become meaningful contributors to both our top and the bottom line. During our last fiscal year (ending June), we achieved record revenues with broad-based growth across our business. We also experienced an all-time high derivatives activity in September. These results are testament to the success of our multi-asset strategy.

One of the key reasons why global investors invest in Asia through SGX Group is the efficiency and ease of access. Asia is a complex region comprising diverse countries with varying stages of growth, demographics, currency and capital restrictions. To be able to go to a single point of access for equities, FX and commodities is an important client proposition.

Because of the volatility in commodities this year, a lot of props who have traditionally been involved in only equities and were unfamiliar with our commodity products, have started to ask us questions about our Iron Ore and Freight contracts.

SGX's 62% Iron Ore derivative contracts witnessed 50% year-on-year growth in 2022. This has been buoyed by hedging interest in a volatile environment as well as increasing participation from financial participants. This translates to more than 100,000 lots, which is a notional value of over \$1 billion traded a day.

We also achieved new heights this year for two of our most liquid currency pairs. Both our INR/USD and USD/CNH Futures achieved new daily record volumes in April.

We are seeing more global market participants in our ecosystem. To capture that demand, you need to ensure you remain as relevant as possible. These market participants don't connect to SGX for just one product. Given the investment and resources required to set up linkages, they want to be able to scale quickly across multiple, liquid products in time zones that work well for them. Our T+1 session now contributes 17% of total volumes and continues to grow.

## What are some of the new launches you have planned?

Having pioneered iron ore derivatives, we have since created a comprehensive product ecosystem around the concept of a “virtual steel mill”. We have just launched the Shanghai Rebar Futures contract on the back of strong market demand, following the launch of the corresponding swap contract in May 2021.

On the ESG front, the transportation sector has emerged as a focal point in countries’ drive towards net zero commitments. This has spurred the growth of electric vehicles and a corresponding rise in demand for energy metals, used in the production of EV batteries. SGX launched a suite of energy metals derivative contracts (cobalt & lithium) in September to provide the industry with price discovery in the green energy transition, while providing unique capital efficiencies in a ‘virtual car complex’ alongside SGX’s global benchmarks in ferrous metals and SICOM natural rubber.

We have also just announced our plan to develop listed derivatives based on the MSCI Climate Action Indexes, which will offer global investors broader solutions to meet their net-zero commitments and integrate climate considerations in their equity portfolios. These indexes include companies that are taking concrete steps to reduce their carbon emissions. While most of our derivatives products are anchored in Asia, this suite will have a global reach and we look forward to developing this important strategic effort with MSCI.

## How are prop firms currently engaging with SGX, where do you see the most activity from them?

Historically, most of the engagement that we’ve seen with prop firms has been with our flagship equities products, such as SGX FTSE China A50 Index Futures, Nikkei 225 futures, Nifty 50 futures and Taiwan Index futures. That’s where we have built up huge track records and trust with the prop community.

Currently, props who are constantly seeking alpha have been paying attention to our cash equities market of which over half of our stocks are international companies. Over the last five years, volume contribution from proprietary trading in our securities market has doubled as new trading firms ranging from global trading firms to regional prop desks have entered our market. These firms contribute to liquidity across more than 500 stocks in diverse sectors.

## Where are you seeing the most interest in terms of new prop firms connecting to SGX? What trends do you see in the Singapore prop market? Are new firms setting up and what is driving growth for props in Singapore?

We have observed prop firms taking advantage of buy-side capital movements and flows into Singapore, as well as MAS’ welcoming stance for global fund managers and family offices to establish a presence here.

In the equities space, there are many new growth companies emerging from this region as well as global companies which are keen to expand in Asia. Hence, we expect to see more IPO activity and more dual listings for arbitrage opportunities. Props looking to trade new products on SGX have also been tapping on our fast growing ETF product shelf, with AUM doubling from S\$5 billion to S\$10 billion in three years.

Greater financial participation in iron ore has been an interesting trend as historically the market has largely been physical players trading OTC. However, due to financialization efforts over the past few years, volumes have shifted to the screen and financial participants now comprise 40% of our trading volumes and the iron ore contract continues to attract more attention among the prop community. FX futures volume has also continued to grow with UMR pressures kicking in and we continue to see record volumes in that space.

**What are some of the technological developments on your derivatives platform catered to props that set you apart from competitors?**

Adopting global standards where possible is of paramount importance as we have a very diverse and global client base. This lowers the total cost of ownership for market participants.

Our co-location service offers multiple tiers of access with differentiated latency and costs to cater to a diverse set of prop requirements. We also welcome other Exchanges Point-of-Presence (such as ASX, Eurex, ICE) setting up in our co-location to facilitate participation in various liquidity pools from a single venue.

In addition, SGX has pioneered many innovations in the Asian market over the years, such as the use of the ITCH & OUCH binary API protocol for Derivatives for lower and more deterministic latency, Exchange-provided PTRC for a minimum standard of Pre-Trade Risk Controls and Self Trade Prevention (STP), which allows trading firms to reduce the complexity of their algo's.

More recently, we have enhanced this feature to allow trading firms to prevent internal crossing across the whole market (across multiple brokers) regardless of where the orders are initiated from, so at a trading group level rather than trading code. It has become more common for trading participants to trade through multiple Clearing Members / execution brokers to diversify risk and utilize the strengths of each. So the STP at trading group level gives participants maximum flexibility and confidence to trade on SGX Titan.

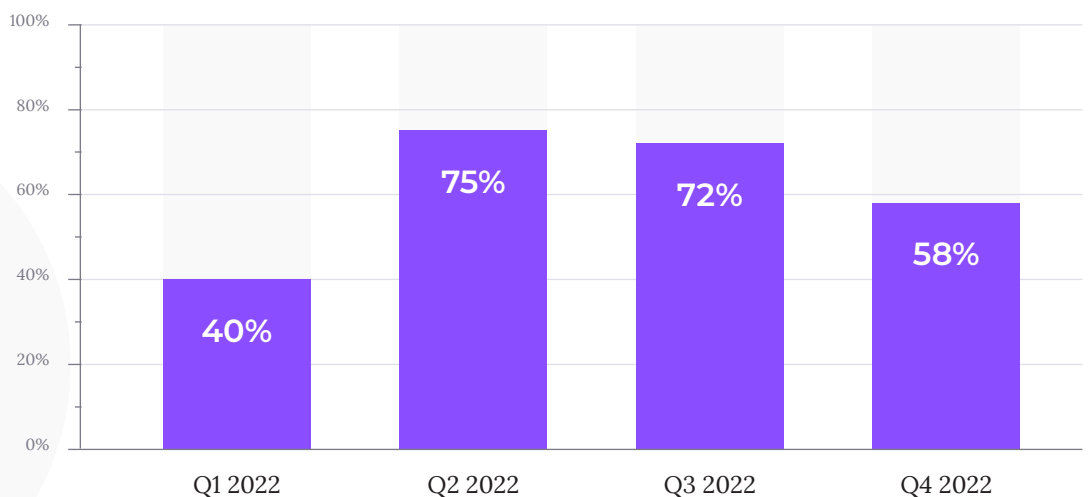
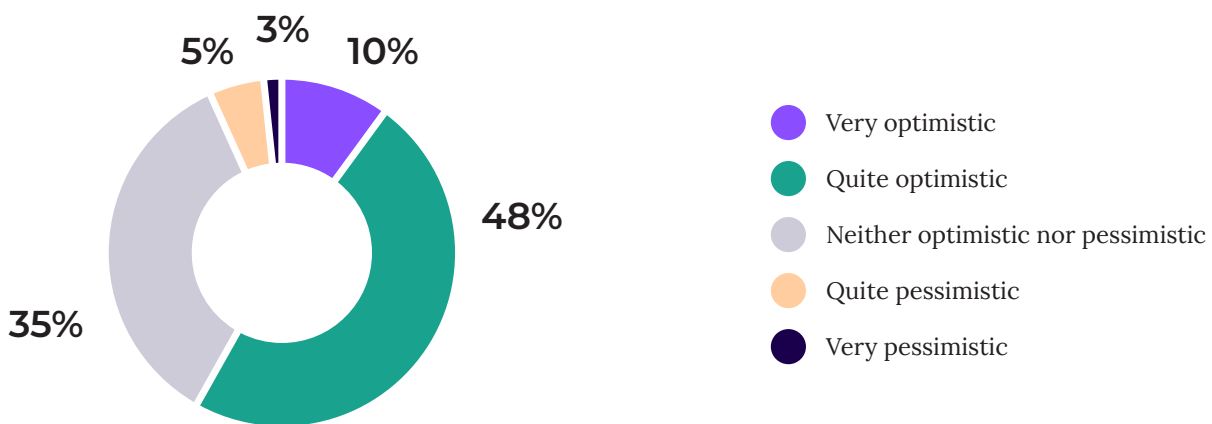


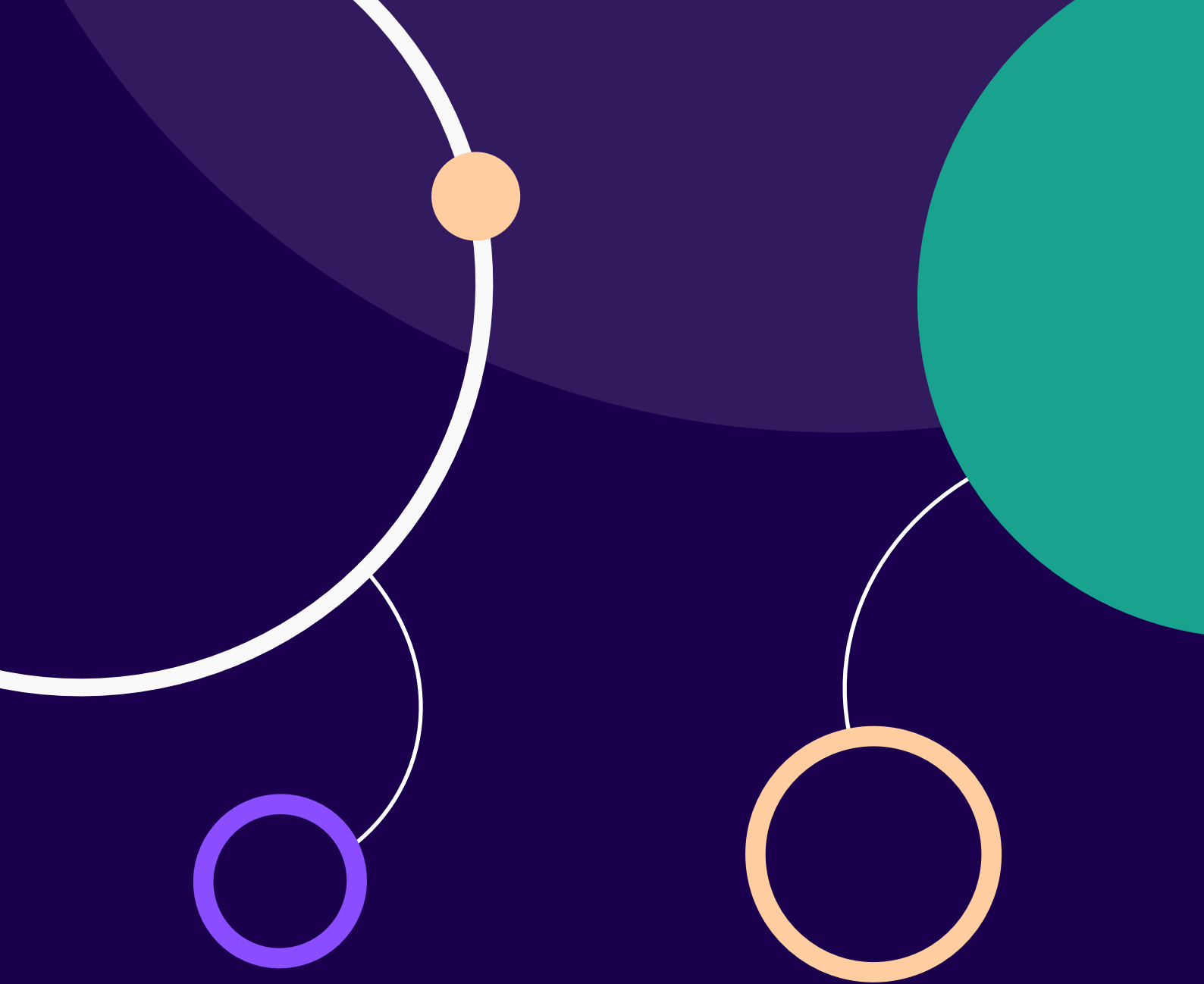
# Sentiment and outlook

Optimism among proprietary trading firms fell again last quarter but remained positive. Overall 58% of respondents said that they were either quite (48%) or very (10%) optimistic about their business' performance in the next three months.

Respondents in the EU were the most optimistic with 20% saying they were very optimistic and 47% quite optimistic. UK respondents were also positive with 7% being very optimistic and 64% quite optimistic.

Looking ahead to the next three months, how optimistic are you about the environment for your business performance?





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