# U.S. Capital Markets Performance During COVID: Foreign Exchange

December 7, 2020

Executive Summary:




The impacts of the COVID-19 crisis on foreign exchange (FX) markets were both profound and also somewhat difficult to observe. That said, what we can observe in the more transparent segments of the FX market is illustrative of conditions on a larger scale. Most transparent is the activity that occurs on electronic communication networks (ECNs). On these trading venues, March 2020 witnessed substantial increases in volumes coupled with a meaningful widening of spreads.

The spreads have contracted relatively quickly from their peaks but have been slow to fully normalize. The key takeaways are that markets continued to function and that by charging wider spreads, liquidity providers were compensated for the increased risk they faced during volatile markets - exactly what one would expect of functioning markets.

Methodology:

This Greenwich Associates research is primarily based on data from the first half of 2020 that was analyzed in July and August and conversations with liquidity providers, investors, regulators, exchanges, and trading platform operators. The analysis also utilized numerous sources of both public and private data, including but not limited to FINRA, the Federal Reserve Bank of New York, OPRA, MarketAxess, Bloomberg, and BIS.

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