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FX Trading: Strategic Importance of Electronification and Automation

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Executive Summary:



A combination of short- and long-term drivers will continue to encourage the use of electronic execution in FX trading. While the trends may differ slightly among the various FX instruments, the direction of travel for end users and the buy side is to increase their electronic trading capabilities to not only optimize execution, but for pre- and post-trade processes as well.

Achieving best execution is a strategic priority for the buy side. The technologies and tools that help in this quest, including the use of central limit order books (CLOBs), transaction cost analysis (TCA) and algorithms, are improving and now more commonly used by the buy side. But the pace of e-trading growth has not and will not be linear or consistent between instrument types. For example, the buy side cites lack of liquidity and a preference for voice and chat when trading certain non-deliverable forwards (NDFs), limiting electronic execution, while nearly 80% of spot trading by volume is electronic.

The simultaneous use of electronic and voice trading means that the surrounding processes need to be flexible to properly manage the execution, financial and operational risks inherent in the FX market.

Methodology:

Coalition Greenwich conducted interviews with 87 buy-side FX professionals globally in Q2 2024 to ascertain their views about the direction of the FX market. Questions explored the key drivers of change in the FX market, investment priorities, challenges in today’s market, and how firms will respond to regulation and other market drivers going forward.

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