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2015 Global Foreign Exchange Services: Hedge Fund Practices in Electronic Trading

July 30, 2015
Executive Summary:

More than eight in ten hedge funds trade FX electronically, though demand for e-trading is effectively universal among the most active users. Excluding two large outliers, the proportion of total hedge fund volume traded online increased from 71% to 76%.

Graphic slides include:

- More than eight in ten hedge funds trade FX online (stable) and now execute 76% of their volume electronically
- Demand for e-trading remains nearly universal among the most active hedge funds and has sustained similar levels to last year with smaller volume accounts
- Demand for electronic execution has slightly increased in Asia Pacific, while levels in the Americas and Europe remain consistent
- Eight in ten hedge funds trade electronically - stable from last year but meaningfully higher than the levels from 2007-2011
- One in four hedge funds that trade online use algorithmic-based execution tools – a modest increase from last year
- Hedge funds and banks report an increase in the proportion of their volume traded electronically
- One in four hedge fund currency options users trade these instruments electronically
- More than one half of NDF users trade these instruments electronically
- Hedge funds are less inclined to use multi-dealer platforms, relative to other financials
- Demand for single-dealer sites is much higher than for multi-dealer platforms in Asia Pacific
- Most Important Factors for Prioritizing Single-Dealer E-Trading Platforms, cont'd
- Less than one in six hedge funds report using direct-to-dealer APIs
- On average, hedge funds trading electronically now execute a higher proportion of their volume on multi-dealer platforms
- About one in three hedge funds trading online expect to use multi-dealer
- FXall continues to be the most widely used multi-dealer platform
- J.P. Morgan (gaining) is now the dealer used most actively on third-party systems
- Barclays has the most widely-used single-dealer platform, followed closely by Citi gaining
- More than one in three hedge funds use Transaction Cost Analysis, with the most active traders continuing to have the strongest demand
- Across geographies, demand for TCA has increased
- Most hedge funds using TCA continue to utilize proprietary tools, though more report using broker-provided offerings this year

Methodology:

Greenwich Associates interviewed individuals responsible for foreign exchange trading at 1,612 top-tier financial institutions and corporations globally, including 192 Hedge Funds and CTAs. Interviews were conducted in face-to-face meetings or by telephone.



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www.greenwich.com | ContactUs@greenwich.com

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greenwich.com ContactUs@greenwich.com Ph +1203.625.5038