

PROFIT & LOSS

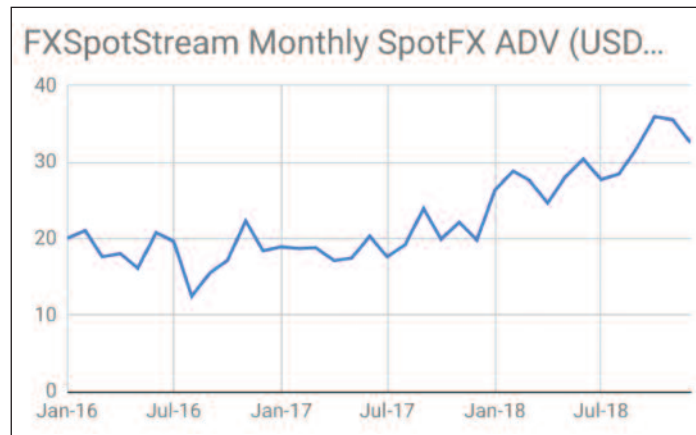
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 This report first appeared in: Profit & Loss Magazine, Q1 2019 | issue 177 | vol. 20

FXSpotStream: A Model That Works



Throughout 2018 FXSpotStream experienced a very sizable increase in trading volumes, even though it made no trading product launches on its service last year. Yes, in 2017 it added NDF/NDS products to its trading suite, and yes, in percentage terms it saw a healthy increase in trading volumes in this segment, but this still only accounts for less than 1% of the overall volume on the service.

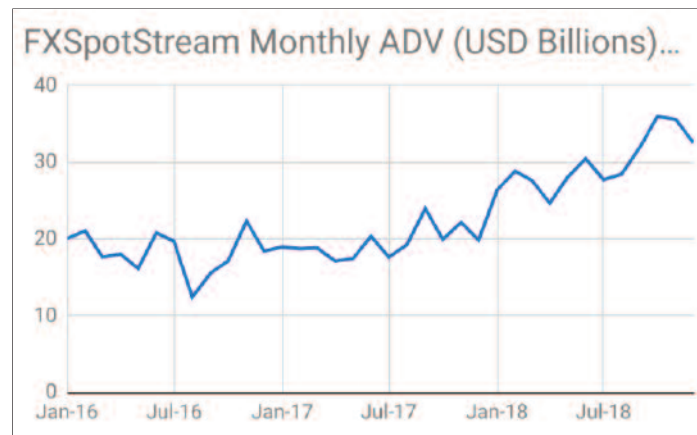
Instead, FXSpotStream's CEO, Alan Schwarz, attributes the uptick in trading volumes to a significant increase in business from existing clients and volumes coming on line from new clients in the pipeline. At the same time, a broader shift in the market towards



disclosed trading is contributing to FXSpotStream's volume growth as is the firm's fee structure, which sees liquidity provider banks pay a flat monthly fee to trade on the service while liquidity takers are not charged at all.

"Our model is a clear differentiator and the difference is that, not only do the banks not pay per transaction, but as the banks do more business their "effective commission rate" decreases and the expectation is that when the banks are able to effectively pay less for their trading they will be able to show the client a better price. It's a huge distinction albeit not the only one," he says.

Schwarz does not dismiss the impact of the NDF launch,



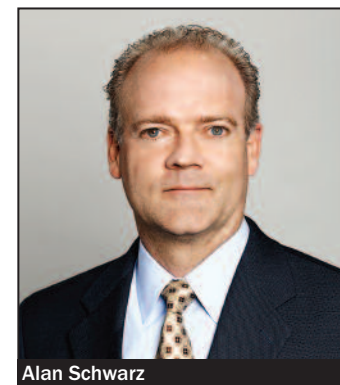
however, stating that in 2018 some sizable clients began trading on FXSpotStream who had previously declined to do so because the service couldn't offer both spot and NDF trading.

Elsewhere, a big focus for the firm was the launch of its analytics tool, FX Insights, at the beginning of last year.

"That was a big undertaking, bigger than we initially thought because there's a lot of data and a lot of ways you can show that data and then slice and dice it. Utilising data, doing it efficiently and making it worthwhile isn't easy," says Schwarz. "This is just version 1.0 though, and we are already working on version 2.0 now."

He adds: "Clients often don't have as much visibility as you would think or if they do they are not using it to its full potential. And there's no doubt that the shift from anonymous towards disclosed trading goes hand in hand with the demand for more information and data looking at the cost of trading and market impact."

Looking at the year ahead, Schwarz insists that the focus will remain the firm's spot API business. Having reached an average daily volume for all of 2018 of \$29.8 billion on the FXSpotStream



Alan Schwarz

FXSpotStream Top Five Highest Volume Months	
Month	Average Daily Volume
October 2018	\$35.9 Billion
November 2018	\$35.5 Billion
December 2018	\$32.5 Billion
September 2018	\$31.9 Billion
June 2018	\$30.4 Billion

service, of which about 90% is still spot, he believes that there is plenty of room to substantially grow this figure. Indeed, 2019 is off to a strong start with January hitting another ADV high at \$38.4 billion – that represents a YoY ADV increase of 46%. January also saw an all-time daily high on January 3 of \$52 billion, exceeding the prior daily high in November 2016 of \$49.1 billion.

"Our first goal is always to resist the temptation to go after every shiny new toy. We're very good at keeping our eye on the ball and looking sideways when needed," says Schwarz.

In 2018, the ADV on FXSpotStream was up 53% year-on-year, and interestingly the majority of this came from existing clients trading more on the service. This is good news for the firm as it shows that there is still pent up demand within the existing client base and, because new clients don't typically trade large volumes immediately after coming onto the service, he expects to see more volume growth this year. According to Schwarz, it takes longer than he'd like to onboard new clients, and so one of the initiatives at the

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firm in 2019 is to shave time off the current onboarding process.

Although continuing to ramp up the spot volumes, grow the NDF business and develop the analytics offering remain the top priorities for this year, Schwarz says that building out algo and allocation capabilities is an opportunity FXSpotStream would like to explore in the future.

"The amount of algo volume in FX is maybe 10% of the total volume. If we can capture some of that algo volume that could have a significant impact, and then if we can offer that to the real money community with allocations capabilities that would add to our volumes. But those are big projects, and so these are longer term initiatives for us," he comments.