

MarketAxess Eyes EM Growth

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CRAIG MCLEOD, head of emerging markets product management, CEEMEA & Asia at MarketAxess, said the fixed income platform could add thousands more clients in the next decade as electronic trading continues to grow.

McLeod joined MarketAxess last September from the buy side. He had previously been head of fixed income and foreign exchange trading at Investec Asset Management.

He told Markets Media: “The problem for the buy side is that a lot of liquidity has moved from the big banks post-2008, noticeably shifting into the inventories of regional and local emerging market participants. More and more buy-side clients have therefore begun to partner with MarketAxess, as our Open Trading platform gives them easy access to this fragmented liquidity.”

Open Trading is MarketAxess’ all-to-all trading model which allows multiple

parties in a network to come together to trade, rather than the traditional model of only banks supplying liquidity to the buy side.

“We strongly believe that it’s possible to add thousands more clients to Open Trading in the next decade so there is huge growth potential,” added McLeod.

Kevin McPartland, head of research for market structure and technology at consultancy Greenwich Associates, estimated in a report last year that 15% of emerging market hard currency bond trading in US dollars or euros on MarketAxess is through the Open Trading platform.

He was the author of Greenwich’s study, Emerging Market Bond Traders Embrace E-Trading, which found that 70% of US investors are trading emerging market fixed income products electronically, amounting to 14% of the notional volume traded.



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MARKETAXESS EYES EM GROWTH (CONT...)

"US investors favor MarketAxess here, which is not surprising, given they are the market share leader in US investment grade and high-yield bonds," McPartland added. "The top dealers trading on the emerging market platforms differ little from the top dealers in emerging market bonds overall, with Barclays, Jefferies and JP Morgan the most used electronic counterparties by the US investors in our study."

The research showed that nearly one third of asset managers and half of the hedge funds in the US expect their volumes in emerging markets fixed income to increase in the coming year and at least 70% of those investors will execute some trades electronically.

McPartland wrote: "Technology is increasing the flow of information, removing the language hurdle and connecting disparate brokers and investors from all over the world, allowing trades to consummate that only a few years ago would have been too expensive, if not impossible, to get done."

GROWTH STRATEGY

McLeod continued that MarketAxess currently covers all emerging markets hard currency sovereign and corporate bonds.

"Rollout to 26 emerging market local currency debt countries on Open Trading started in 2018, with Poland and South Africa, and we expect three more countries will debut by the end of this quarter," said McLeod.



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Local currency trading has become an increasing proportion of MarketAxess' overall emerging markets volumes. Last November MarketAxess said local currency trading represented approximately 30% of emerging market activity in the third quarter of 2018.

McLeod added that priorities in emerging markets are to expand Open Trading to more local markets; roll out automated execution features for emerging market products and to improve block trading by making "request for market" (RFM) more prominent.

Investors trading emerging market local currency bonds can use an RFM inquiry and receive two-way pricing, which allows them to trade in larger size. In November last year MarketAxess said more than \$14.2bn (€12.4bn) had been traded via the RFM protocol in the year-to-date, up 78% from 2017.

"RFM volumes crept up in November and we have found that it is a very

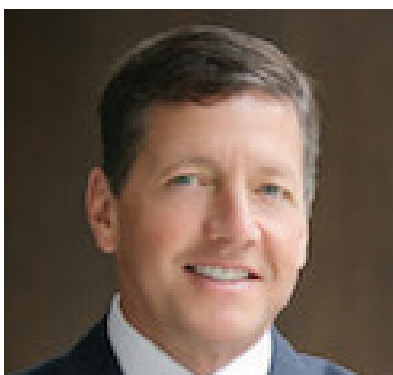
powerful protocol for trading in volatile markets – just like Open Trading itself," said McLeod. "It is currently at the user's discretion as to whether they use RFQ or RFM. We are currently considering analytics to guide users on how to gauge which protocol will help them fulfil their best execution obligations."

RESULTS

MarketAxess reported its 2018 full year results today and said the firm had achieved its tenth consecutive year of record full year trading volume, revenue and operating income.

Emerging market volume was \$378bn, up 23.3% on 2017, with local markets trading volume up 35%. In addition, Open Trading reached an all time high of \$117.5bn last year, up 96.5% from 2017.

Rick McVey, chairman and chief executive of MarketAxess, said in a statement: "The fourth quarter was one of our best quarters ever for year over year market share gains, as well as volume growth in Open Trading. The liquidity pool provided by Open Trading was increasingly valuable as credit spreads widened, leading to record estimated transaction cost savings for our clients of \$57m for the quarter. I am very happy to welcome Chris Concannon to MarketAxess as our president and chief operating officer to kick off the new year."



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