



Europe's Bond Trading Enters a New Evolution

Christophe Roupie | Head of Europe and Asia

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Christophe Roupie, Head of Europe and Asia at MarketAxess, talks evolving dynamics within fixed income markets, the impact of MiFID II, electronic trading's inflexion point and Brexit one year out.

WHAT IMPACT HAS CHANGING POLITICAL AND ECONOMIC POLICIES HAD ON THE MARKET?

We are in the midst of an evolution toward the next generation trading desk. After spending most of my career on the buy-side and now overseeing the European and Asian business for MarketAxess, I've observed first-hand that technology is at the heart of every successful trading desk. The

market environment is evolving with QE policies loosening, inflation edging higher and more emphatic predictions on the end to the 25-year bond bull market. The market is clearly bubbling under the surface and it's up to the industry to act and take advantage of the growing opportunity.

Regulation is also driving the need to improve efficiency, reduce costs and is encouraging the market to embrace technology. Firms are still grappling with the MiFID II reporting requirements,

and there are mixed opinions on bond liquidity classifications. Opimas, a consultancy, estimates that MiFID II has cost the finance industry more than €2.5bn to implement and €720m annually to keep compliant over the coming five years. MiFID II has been a transformative journey for the European market.

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WHAT'S THE CURRENT STATE OF THE EUROPEAN BOND MARKETS AND WHAT LIES AHEAD?

2018 is set to be fixed income's entrepreneurial moment. The combination of regulatory change and uncertain market liquidity conditions will accelerate the shift toward greater automation and increased bond e-trading.

You only need to consider the journey of other asset classes, such as equities and FX, to realise the huge scope for shifts in fixed income market structure. Evidence of this, we're early in the process of seeing greater electronification in fixed income markets as a result of MiFID II. In Q1 2018, the average daily volume conducted on the MarketAxess trading platform by European participants reached \$1.86 billion, up 31% in the same period from the year before.

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All the while, credit market volumes in Europe, as reported by Trax, remained relatively flat. That said, it's still early to conclusively link this trend to MiFID II, but client feedback supports our observations.

As a part of that evolution, all-to-all trading is now broadly maturing as a 'must have' not a 'nice to have'. A Greenwich Associates report cited, "More than half of corporate bond investors believe that all-to-all trading will be the biggest source of new liquidity in the coming years". Our own all-to-all marketplace, Open Trading, has seen impressive growth since launching in 2012 and now accounts for over 17% of all transacted volume on our platform.

To help better manage trading costs, both buy- and sell-side firms are actively reviewing their low-touch and high-touch trading strategies. The next frontier of low-touch trading will be auto-execution. If implemented carefully, auto trading capabilities can enable thousands of trades to execute within minutes and provide phenomenal efficiency gains; in fact, these capabilities could transform the market as dramatically as all-to-all trading is doing now. We have solutions already to support auto execution, but the market is just scratching the surface.

HOW CAN THE BUY-SIDE SHIFT TO A PRICE MAKER ROLE? AND WHAT'S IN IT FOR THEM?

We are seeing a behavioural shift among buy-side traders as their appetite and ability to offer liquidity grows. All-to-all technology is providing the next generation of asset manager with improved market access through more efficient trading processes and global connectivity.

It's not enough to have just the trading technology, though. For firms to realise the full potential of their trading capabilities, they need high-quality data throughout the trading lifecycle. Accurate pricing benchmarks, such as MarketAxess' Composite+, which uses machine learning technology, are giving buy-side trading desks the confidence to approach the market. Bond traders have become opportunistic in their trading, leveraging data tools to offer natural liquidity at a price target which suits their risk profile.

Ultimately, advanced trading technology and data tools can help firms reduce costs. Liquidity takers saved an estimated \$32 million in transaction costs through Open Trading in the first quarter of 2018. With MiFID II's best execution obligations, such cost savings opportunities are an obvious way for firms to demonstrate compliance and improve their transaction costs analysis.

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BEYOND MIFID II, WHAT ELSE CAN WE EXPECT ON THE REGULATORY LANDSCAPE IN EUROPE?

One of the biggest challenges for the fixed income markets is regulatory arbitrage and the unrelenting pressure on compliance teams. This will all have a knock-on effect of greater cost pressures on market participants.

Regulatory arbitrage is a risk. With the U.S. looking to loosen regulatory policy, and Asia moving in its own direction, the risk of arbitrage across regions is increasing substantially. The

impact of Brexit adds to this threat. European regulators have a pivotal role in ensuring that loopholes are kept closed while fostering business growth.

Further down the line, we see no respite for compliance teams. The Securities Financing Transaction Regulation (SFTTR), which will impact the world of securities finance and repo, is not set to be implemented until 2019, but learning from the implementation of MiFID II and European Market Infrastructure Regulation (EMIR), we are already staring down the barrel of a further sizeable regulatory bump in the road.

LOOKING AT BREXIT, WHAT IMPACT DO YOU SEE IT HAVING ON THE FIXED INCOME MARKETS?

Many firms will need to open EU hubs for their businesses – and how firms manage relocating talent will be a major topic in the coming months. I hear from many industry professionals about London potentially losing its status as Europe's financial hub – this is overblown no doubt, but the movement of talent will likely have an impact.

As one of the first trading platforms to establish a European base in Amsterdam, MarketAxess is ahead in this process. We'll have people in Amsterdam ready to go live with a multilateral trading facility (MTF), and ready to on-board dealers and clients with no interruption in service.

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About Christophe Roupie

Christophe Roupie is Head of Europe and Asia for MarketAxess. In this role, Christophe leads the firm's growing trading, data and post-trade businesses in Europe and Asia. Previously, he was at AXA Investment Managers, where he was Global Head of Trading and Securities Financing for over a decade. Prior to joining AXA, he was the Global Head of Fixed Income Trading at Ixis Asset Management. Throughout his career, Roupie has been an advocate for electronic trading as a critical component of best execution practices.

About MarketAxess

MarketAxess brings nearly 20 years of financial technology innovation to the global institutional fixed income markets through its electronic trading platform, market data solutions and post-trade services. The MarketAxess trading platform connects over 1,400 institutional investor and broker-dealer firms to seamlessly access liquidity from one another. MarketAxess' data tools support the trading workflow by providing analytical and streaming data services leveraging high-quality sources, including Trax. Trax, the post-trade services engine of MarketAxess, processes on average over 1 billion cross-asset class transactions annually on behalf of its community of over 600 entities including approximately 12 million fixed income transactions. The combination of MarketAxess' full trade lifecycle solutions is helping bring efficiency to the global fixed income markets to improve liquidity and reduce costs.

MarketAxess maintains its headquarters in New York and has offices in London, Boston, Chicago, Los Angeles, Miami, Salt Lake City, San Francisco, São Paulo, Hong Kong and Singapore. For more information, please visit www.marketaxess.com.



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AMERICAS

+1 877 638 0037
uscs@marketaxess.com

EUROPE

+44 (0)20 7709 3105
eurocs@marketaxess.com

ASIA

+65 6808 6533
asiacs@marketaxess.com