

Citadel Securities: Algo trading to rise, buy side seeks broader liquidity provision

As TCA metrics highlight the benefits of non-bank liquidity provision, Citadel Securities expects more participants will be drawn to its offering



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Kevin Kimmel, Citadel Securities

As the drive to achieve best execution gathers pace, the take-up of algorithmic trading by the buy side is set to increase throughout 2019, says Kevin Kimmel, global head of e-FX at Citadel Securities.

Kimmel expects an increasing number of buy-side market participants to seek access to agency or hybrid algos, as they pursue additional sources of liquidity beyond that provided by a single bank’s principal price.

“Banks will need to differentiate their offerings as algo competition heats up, and part of that will include identifying optimal sources of liquidity based on market impact and other important metrics,” he says.

As transaction cost analysis tools draw attention to the execution quality of liquidity provided by non-bank liquidity providers (NBLPs), market participants are becoming increasingly aware of the benefits of this source, says Kimmel.

As Citadel Securities focuses on extending its principal liquidity to a larger portion of the marketplace, he says the NBLP is strengthening and expanding its partnerships with banks.


“We have had considerable success partnering with banks of all sizes, both by providing disclosed liquidity to Tier 1

bank algos and offering principal outsourcing to smaller regional banks,” says Kimmel.

He also expects the FX industry in 2019 to see bifurcation between those banks following a principal market-making model and those that have adopted a more agency-style liquidity outsourcing model.

“The largest banks will likely continue to be major principal houses, but some smaller banks faced with sizeable technology, and other required investments relative to the size of their franchise, will likely find an agency model to be more economical and appropriate,” says Kimmel.

Servicing retail brokers as a wholesale liquidity provider is important for Citadel Securities’ franchise, so Kimmel is encouraged by recent developments in the credit space, where more providers are decoupling liquidity and credit – traditionally a bundled service.

“The acceleration of credit-specific solutions will be important in helping retail brokers and regional banks [to] gain access to new forms of liquidity. We see this market becoming an important driver of client growth, particularly as access to credit expands,” says Kimmel. 

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