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Citadel Securities: Understanding LP performance set to drive behaviour

As execution quality is better understood, clients will look to deepen relationships with good liquidity providers

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Kevin Kimmel, Citadel Securities

Measuring execution quality has been a key driver of market trends in 2017, which has helped liquidity takers to better understand the performance of their counterparties and, in turn, improve their execution quality.

"We have been focusing on client execution quality and transaction cost analysis, and we see these as ongoing themes for next year. The increasing use of TCA in the marketplace has been important in helping liquidity takers better understand and evaluate liquidity provider (LP) performance," says Kevin Kimmel, global head of e-FX at Citadel Securities.

"On the back of that, liquidity takers are paying closer attention to how they construct their liquidity pools, as well as the potential impact of their own execution styles," he adds.

During the last 12 months, clients have started paying more attention to market impact or the extent of price moves created by their trading. Minimising market impact and thereby limiting information leakage have become key execution goals.

Reject rates have also come under the microscope, with market participants increasingly keen to quantify the cost of rejects. Fill ratios, meanwhile, help to understand counterparty behaviour.

"Previously, there seemed to be a consensus that the more LPs a client had, the better their execution would be. However, we now see this trend reversing, with some clients now looking to reduce their number of LPs and further deepen relationships with their top counterparties," Kimmel says.

Customisation is key to achieving deeper relationships, says Kimmel. He highlights the need for flexibility when entering into partnerships with clients, who may be smaller regional banks with a particular client segment or currency pair they need help with.

"We have also found an important component of forming deeper client relationships is providing a customised offering that fits each individual client's needs," says Kimmel.

"Our customised offering has allowed us to form key partnerships with clients in specific areas; for example, in currencies they aren't strong in or with certain subsets of their customer base. A partnership doesn't need to be all or nothing in terms of outsourcing – we have often found success by helping with specific segments of a partner's business," he adds.

EM focus

In a bid to broaden its coverage, emerging markets currencies will be a big focus for the company, which is set to add more EM units to its universe, as well as enhancing its capabilities in the currencies it already prices.

Liquidity providers pushing into Europe is set to continue, following several senior hires in 2017.

"Distribution remains a focus and we are looking to further add to our sales team next year. Our ability to leverage synergies from the firm's multi-asset distribution also gives us a big advantage," Kimmel says. FX *Eva Szalay*