Actionable Ideas for the Power to Optimize Your Trades

MiFID 2 Impact on Futures Markets Execution

Joel Stainton
Head of Futures Execution, EMEA

Mr. Stainton**:** MiFID 2 is causing rapid shifts in futures markets. Clients are seeking different paths to best execution, which impacts market volume and liquidity. Understanding the new landscape can help you quickly adapt and optimize your trading.

We've seen pre-trade Transaction Cost Analysis become more prevalent, with many traders using tools such as small order handlers to select algos. Fewer orders now go to market, and smart market algo usage is on the rise. Most orders are participation limiting, resulting in substantially lower visible liquidity. Additionally, there's a difference between the passive algos that clients are choosing themselves, and the aggressive strategies that high touch brokerage teams use on their behalf. This suggests traders should benchmark against each other rather than against a desk. There's also been a large increase in the use of futures blocks in fixed income trading within the European markets, which achieves one price for all funds, with costs known prior to execution.

This changing behavior is affecting market structure. First, it's moving volume toward the end of the day. This is becoming self-fulfilling, as liquidity-seeking algos react to recent history and push even more trades toward the close. Second, sharp market moves are reducing average trade and quote size, resulting in faster withdrawal of visible liquidity. Finally, we're seeing the benchmark for best execution move from arrival price to participation. This is a significant shift, and underlines the important changes that have been taking place.

For other actionable insights to help your decision-making across asset classes, check out the rest of our Trader Insights series or contact your sales rep.