

Actionable Ideas for the Power to Trade Smarter

Opportunistic Futures Strategies

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Mr. Wenk: We've seen a dramatic increase in the use of opportunistic futures strategies, relative to more traditional, schedule-based algos. Similar to liquidity-seeking strategies in the cash equity space, opportunistic futures strategies consider market conditions, such as price, volatility, bid/offer size and bid/offer spread, to determine when to passively post orders or aggressively take available liquidity.

Attention to market microstructure is critical in global futures markets, which include commodity, currency, fixed income and equity derivatives. All of these asset classes have unique trading profiles. Opportunistic strategies, BofAML Capture and Instinct, are built to optimize execution around these product-specific characteristics. Capture is similar to a smart market order, aggressing based on available liquidity at favorable prices. Execution desks who have less discretion use this algo to execute quickly, targeting arrival price while minimizing market impact.

Systematic futures clients are also adopting Capture in favor of DMA market orders, both to improve fill price, and to leverage additional market impact risk checks on our algo engine. Instinct is more volume focused, engaging the market within user-defined participation bands, while also considering market conditions to target arrival price. This algo is generally less aggressive and is favored by traders with more discretion, a focus on passive fill rate, and a view on the short-term direction of the market.

Opportunistic futures strategies are proving to be a differentiator by adapting to changing market conditions and varying displayed liquidity to optimize execution.

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