

Trader Insights

Actionable Ideas for the Power to Trade Smarter

Enhancing Execution Performance in Asia

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Ms. Khatter: Markets in Asia have had a turbulent few months, causing many participants to reevaluate their trading practices. While trading volumes are up, in line with global equity markets, this doesn't necessarily translate to higher or improved liquidity. A key driver of higher volume is the large percentage of retail trades. For example, retail now accounts for around 70% of trading volume in Korea and 75% in Taiwan, significantly higher than at the end of last year. An increase in retail participation has also been observed in Japan, Australia, China and India. This shift is impacting market microstructure, partly because retail investors tend to have smaller order sizes and shorter holding periods. Order books are thinner, bid-ask spreads are wider, and volatility remains high. Even large, liquid markets like Australia are seeing price dislocations at the start and end of the day that are around 10 to 14 times the average. Additionally, the number of blocks in the secondary market has diminished. Institutional liquidity has been further reduced by the introduction of short sell restrictions in markets like Korea, Taiwan, Malaysia, Indonesia and Thailand.

With equity markets still fragile and susceptible to large price swings, managing access to liquidity and minimizing market impact are critical. Even small adjustments like changing strategy parameters can help optimize trading. For example, setting wider participation rate bands could help capture more volume, while being active early in the day, when liquidity is increasing, may reduce overall slippage and costs. We recommend a discussion on execution performance with your trusted Bank of America coverage, market expert or execution consultant.

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