

# Live order book automated credit trading is in sight

The launch of MarketAxess's Live Markets will speed automated execution for large, benchmark issues, but smaller deals remain a challenge.

By: Louise Bowman



On Thursday, fixed-income electronic trading platform MarketAxess announced the launch of Live Markets, a live order book trading model for the institutional fixed-income markets.

The new platform will create a single view of two-way, actionable prices for the most active bonds in the market, including newly issued debt, benchmark issues and news-driven securities.

It is expected to launch in the second half of 2019. It will be accessible from traditional request-for-quote (RFQ) protocols and will be anonymous.

"Timing is everything with respect to releasing new protocols," says Rick McVey, MarketAxess CEO, speaking from the firm's Hudson Yards office in New York together with Kevin McPartland, head of market structure and technology research at Greenwich Associates.

McPartland says that when Greenwich Associates conducted an e-trading survey in 1999 it found that 9% of bond traders were trading electronically. The equivalent survey in 2018 found that 91% were.

"Now we are amazed that 9% aren't," he points out.

McVey explains: "We are getting to the point where there is enough automation on both sides that we are comfortable that a live trading market will work. There is enough two-way traffic now."

However, he emphasises that Live Markets will focus on benchmark issues that trade regularly.

"We actually have a higher market share for less liquid

bonds than we do for liquid ones," he explains. "With Live Markets, we can develop really deep liquidity for these benchmark issues."

MarketAxess launched its Open Trading all-to-all network in 2012. In the first quarter of 2019, volumes conducted via the network grew to more than \$134 billion, up 66% from the first quarter of the prior year.

Open Trading now represents 26% of MarketAxess's total global trading volumes.

"Open trading on both sides of the market has been a tremendous advantage for dealers," says McVey. "They have become liquidity providers and liquidity takers. They can manage both sides of the balance sheet.

"This is all part of a new market-making dynamic. Dealers are reinventing themselves."

## New liquidity layer

It also provides a new layer of liquidity that makes the market better prepared for the next liquidity event, he says.

Richard Schiffman, head of Open Trading at MarketAxess, observes that Live Markets is a natural progression of MarketAxess's anonymous trading protocol – providing continuously available liquidity for investors and dealers.

"Live Markets brings live orders and live market-maker prices together to form a unique institutional liquidity pool, ultimately improving transparency and driving greater



Rick McVey, MarketAxess



transaction cost savings," he says.

Live Markets is specifically targeted at the institutional market and larger trade sizes. Automated trading for smaller, more illiquid bonds remains a challenge.

"I am very supportive of transparency, but understand that in a less-liquid bond that trades infrequently, immediate transparency can work against dealers being able to commit capital," says McVey.

He says that automated trading has only become possible because of the quality of pricing through its Composite+ (CP+) pricing algorithm for corporate bonds.

"With CP+, we have taken all our data content from Trace, RFQs and Trax in London and positioned it in one data plan," says McVey. "We then applied AI and machine learning to get to the real-time price.

"This is becoming the market standard and is essential for automated execution on the investor side. It is essential for investors to be confident of executing without manual intervention."

CP+ delivers a pre-trade reference for investors that will predict the clearing price for a bond by taking historic reported price data and combining it with real-time unstructured data – such as indications of interest being streamed by dealers and RFQ responses sent by liquidity providers via the MarketAxess trading platform.

It also extracts any other shreds of price information relevant to a particular bond that may be embedded within other sources, such as credit-default-swap index prices.

"There is a huge universe of bond securities," David Krein, head of research at MarketAxess, recently told Euromoney.

"So even if the particular bond you would like to deal in may not have traded for several days – which means

pricing engines bound by hard rules to only take account of observed prices will not be much help – indications of interest and the information content derived by machine learning from other instruments can provide an accurate pre-trade reference level."

McVey says that for trades that are less than \$1 million in size, "no one is touching these on the dealer side. All responses are algorithmic."



Kevin McPartland,  
Greenwich Associates

#### Low-touch to no-touch

Instead of talking about low-touch trading, therefore, people are now talking about no-touch trading.

"This relies on real-time data," says McVey. "If investors get sufficient automated responses to the RFQ, they can execute with no trader intervention."

Eighty-seven per cent of tickets reported to Trace are for under \$1 million.

At the beginning of April, MarketAxess announced a joint venture with Virtu to offer exchange-traded-fund share trading for short-term portfolio risk transfer.

"The create-and-redeem process has led to big growth in portfolio trading and this is a growing area in fixed-income trading," says McVey. "There is plenty of room for improvement in the process. There is very little electronic execution in portfolio trading.

"Successful trading networks take a long time to build and require huge investment. There is still so much credit that is not trading electronically. Live Markets is another step forward in that journey. We have so much runway still ahead of us."

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