

September 2020

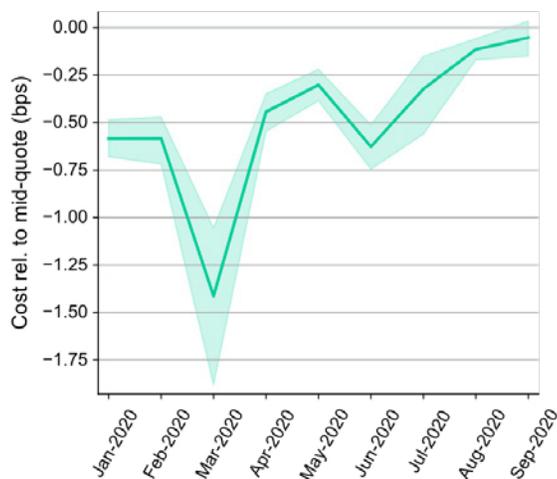
FX Market Structure Monthly

Despite ongoing global uncertainty, everyone is eagerly awaiting a return to “normal”. We wondered, in our small corner of the FX world, if things already had?

Examining spreads and daily volatility charts for the G-10 markets we see tighter spreads now than in March for all 23 currency pairs. Helpful, but what about actual transaction costs? How does the cost of executing a staple FX trade compare to six months ago? We put the query to Virtu’s FX Global Peer database for a data-driven answer. Initiated in January 2020, the new FX Global Peer database records our FX TCA client trade performance across numerous currency pairs and trade types. For this exercise, we focused on the distribution of our client performance in spot or the spot component of forward trades in four currency pairs: EUR.USD, USD.JPY, EUR. SEK and USD.MXN. All sample trades were competitively bid with a value of US\$500K to US\$5M in value. Performance was measured relative to the mid-quote as of execution time. We used data from a representative sample of our peer clients as a proxy for Q3 costs.

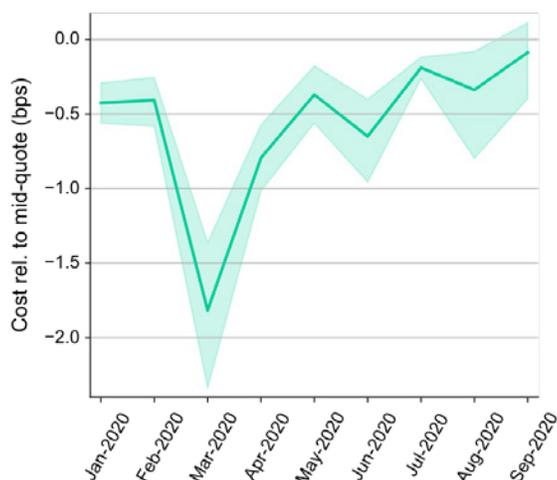
Distribution of cost of \$500,000 to \$5,000,000 USD competitive bid January to September 2020

EUR.USD



We plot the relative range of performance versus the mid-point for **EUR.USD** transactions in the Virtu Peer Database. The green line records our clients’ median performance by month on this trade while the shaded green area captures the 95% confidence interval. In March, the relative performance fell sharply while cost uncertainty tripled. By April, both the cost and variability had returned to pre-pandemic levels. Fast forward to September, our clients recorded the lowest costs in trading EUR.USD this year.

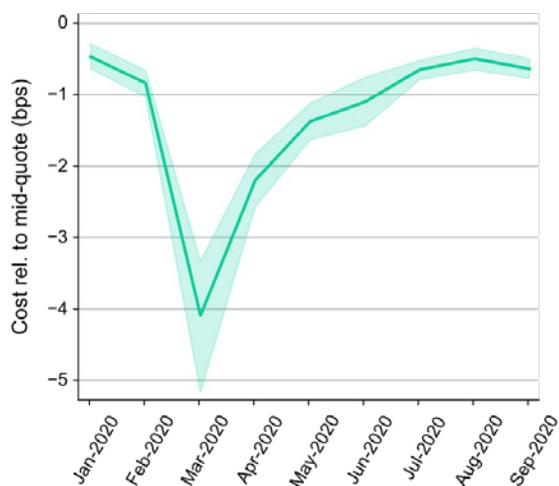
USD.JPY



The **USD.JPY** chart tells a very similar story. Our clients’ performance relative to mid-quote plunged in March but returned to more normal levels by May. USD.JPY trading costs were as volatile as USD.EUR costs.

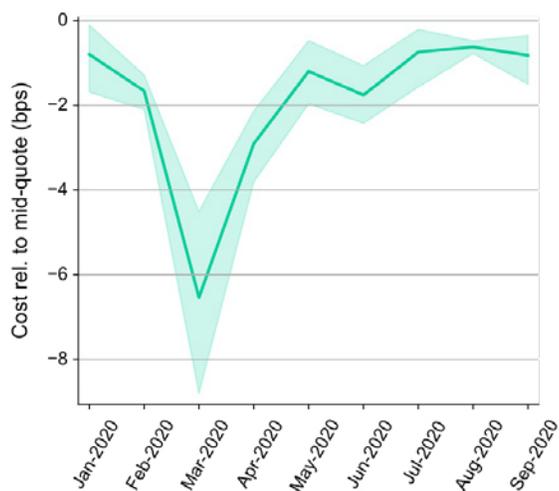


EUR.SEK



In Scandinavia, transaction costs for **EUR.SEK** followed a similar V-shaped pattern with a more gradual return to pre-pandemic levels as of last month.

USD.MXN



For **USD.MXN** the March crisis pushed transaction costs in this emerging market much wider than the currency pairs in this review. Nonetheless, by May, USD.MXN transaction costs were back to about -1 bp, where they have remained.

Source: Virtu Financial.

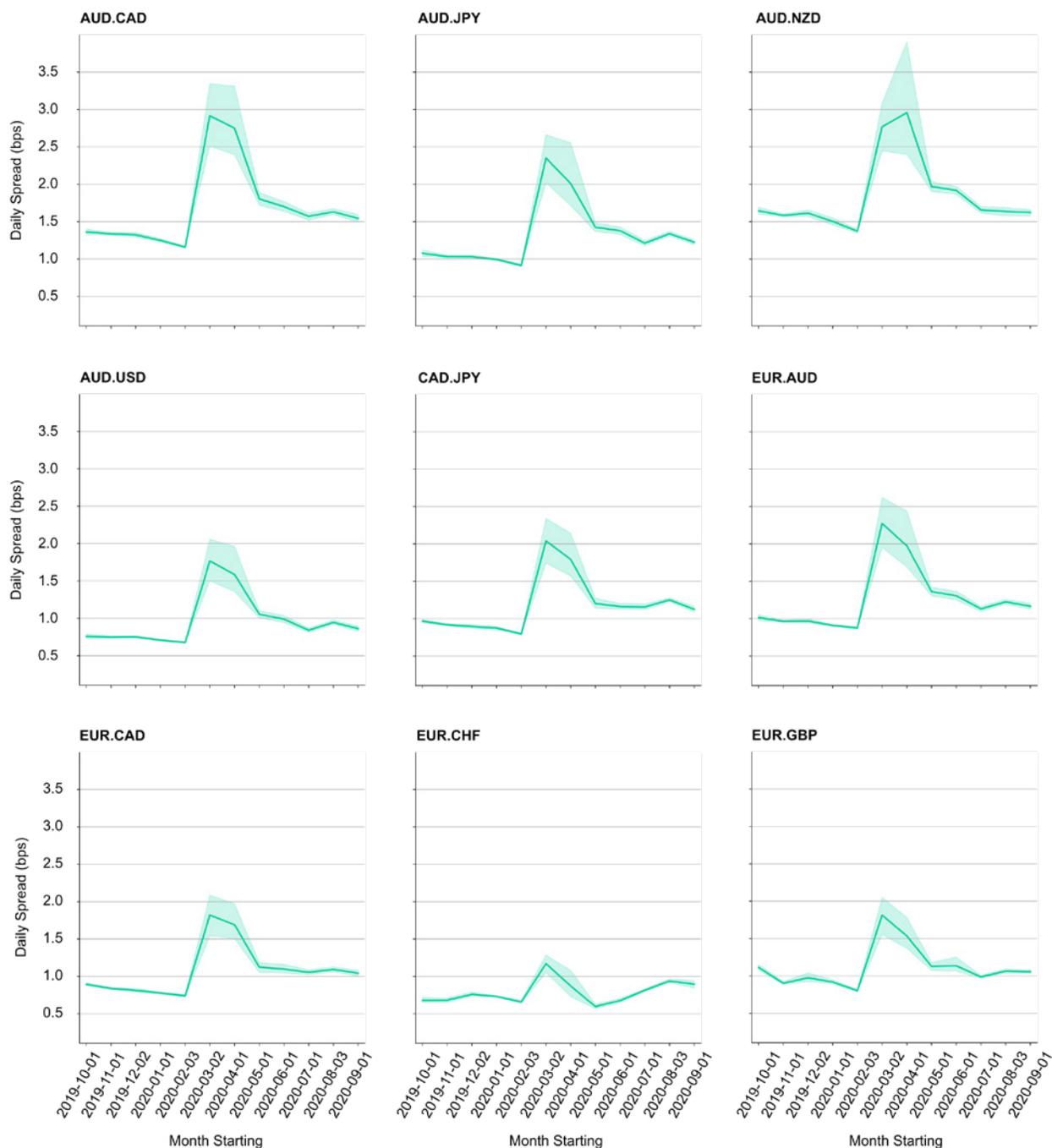
Spread and volatility calculations derived from sources that Virtu believes to be reliable but Virtu does not make any claims to its accuracy.

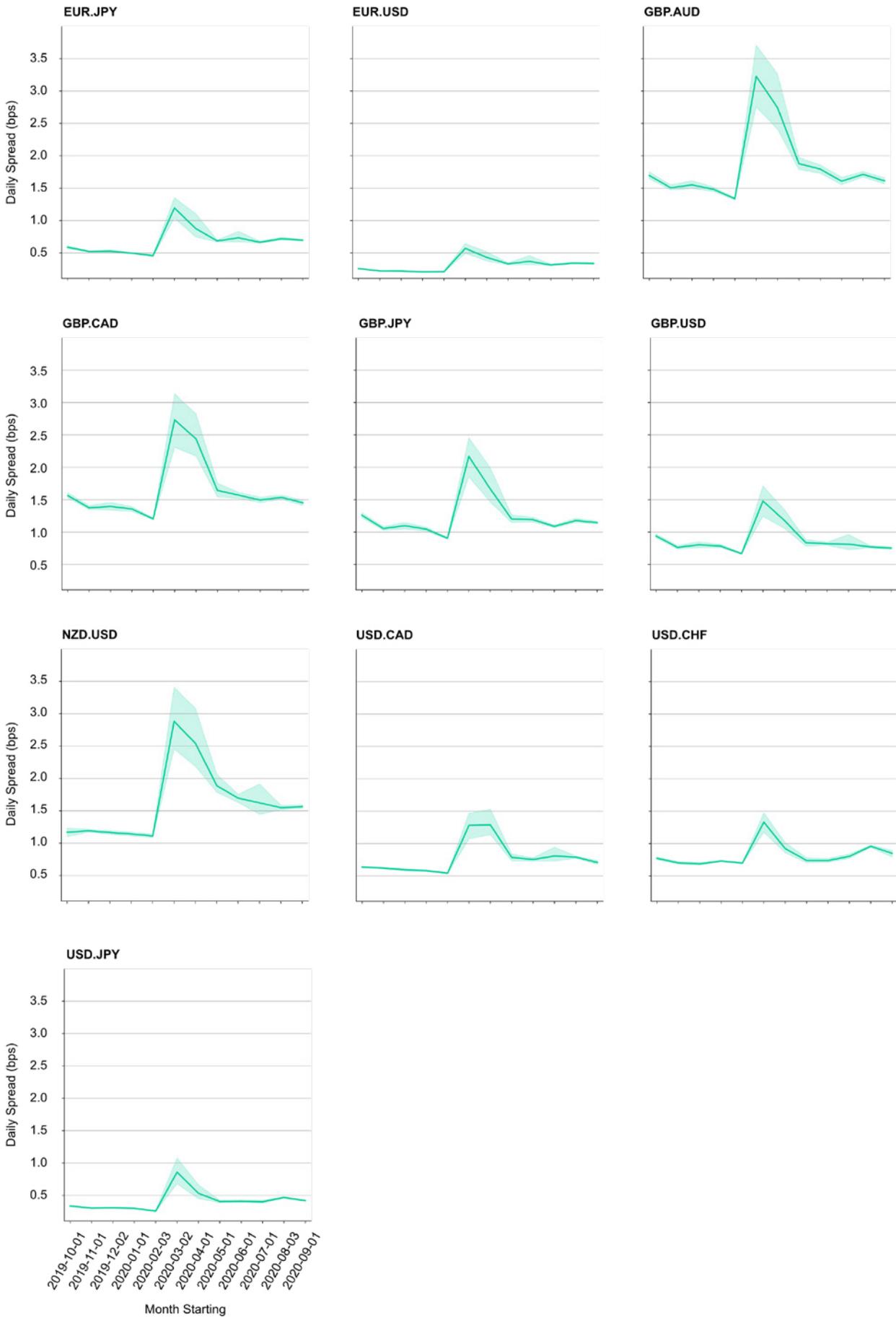


Median spreads narrowed in September for 17 of the 23 currencies—a slight bounce back from August’s wider spreads. Though spreads are tighter in 20 out of the 23 currencies over Q3, spreads for most pairs remain wider when compared to the start of the year.

G-10 Currencies: Mean Spread, 12-4 PM GMT

October 2019 to September 2020





Source: Virtu Financial.

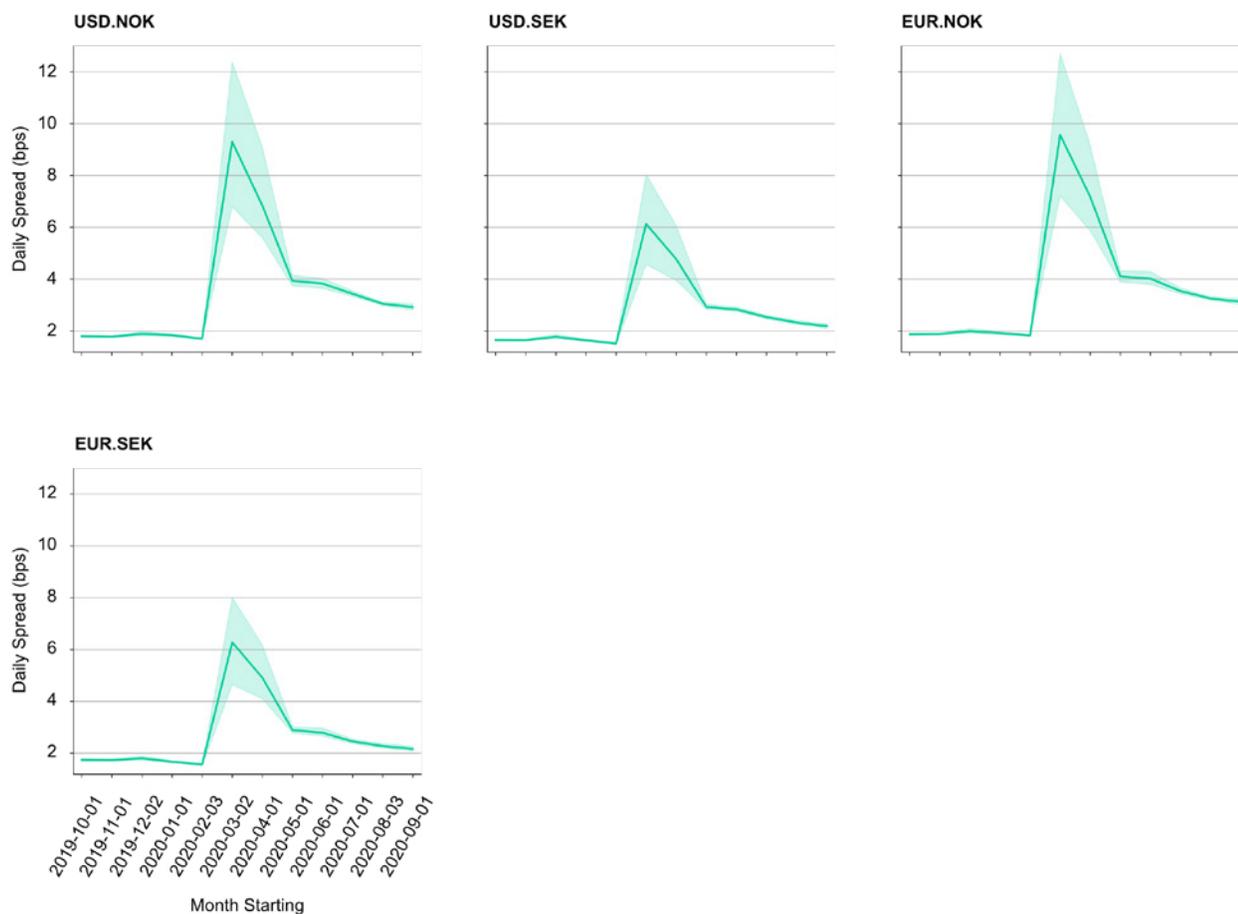
Spread and volatility calculations derived from sources that Virtu believes to be reliable but Virtu does not make any claims to its accuracy.



For your ease, we isolated the following four Scandinavian currency pairs: EUR.DKK, EUR.SEK, USD.DKK and USD.SEK because they recorded significantly more volatility than the other currency pairs over the last 12 months.

Scandinavian G-10 Currencies: Mean Spread, 12-4 PM GMT

October 2019 to September 2020



Source: Virtu Financial.

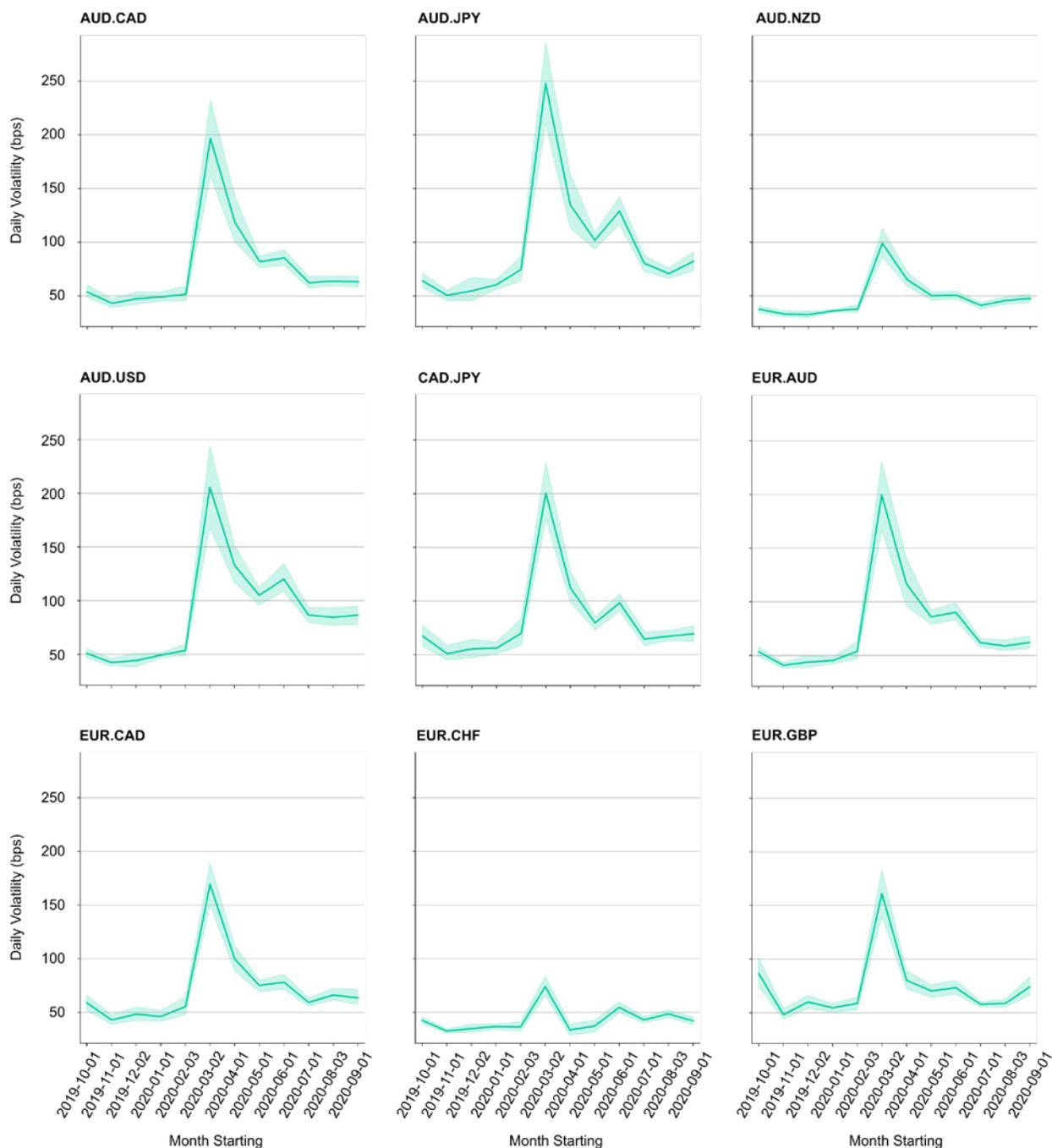
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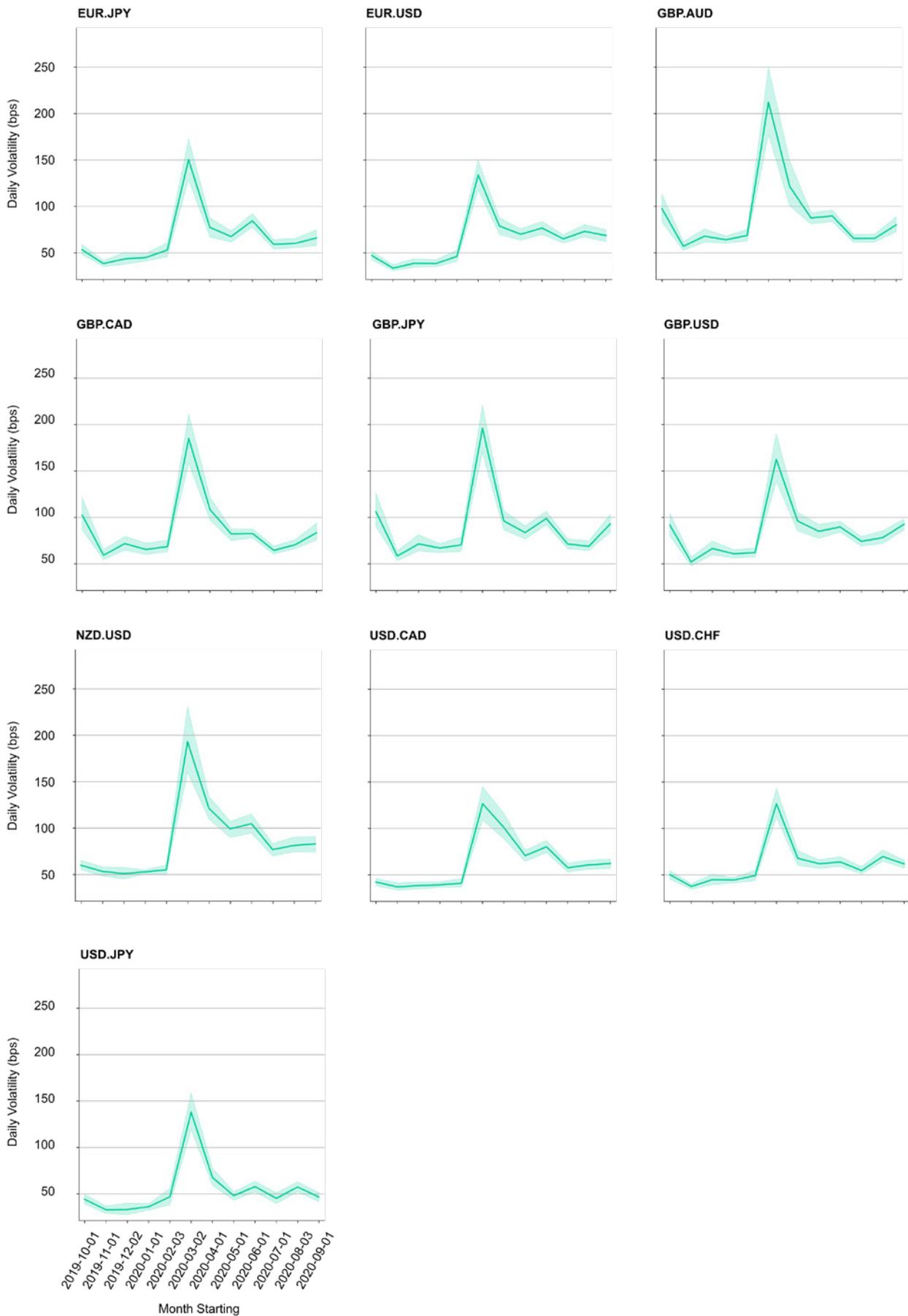


Daily volatility also fell this month, although not quite as broadly as spreads tightened. Volatility fell for 17 pairs in September but rose for the USD and EUR relative to CAD, JPY and CHF. Again, we have isolated the four Scandinavian pairs for readability.

G-10 Currencies: Average Daily Volatility, 12-4 PM GMT

October 2019 to September 2020



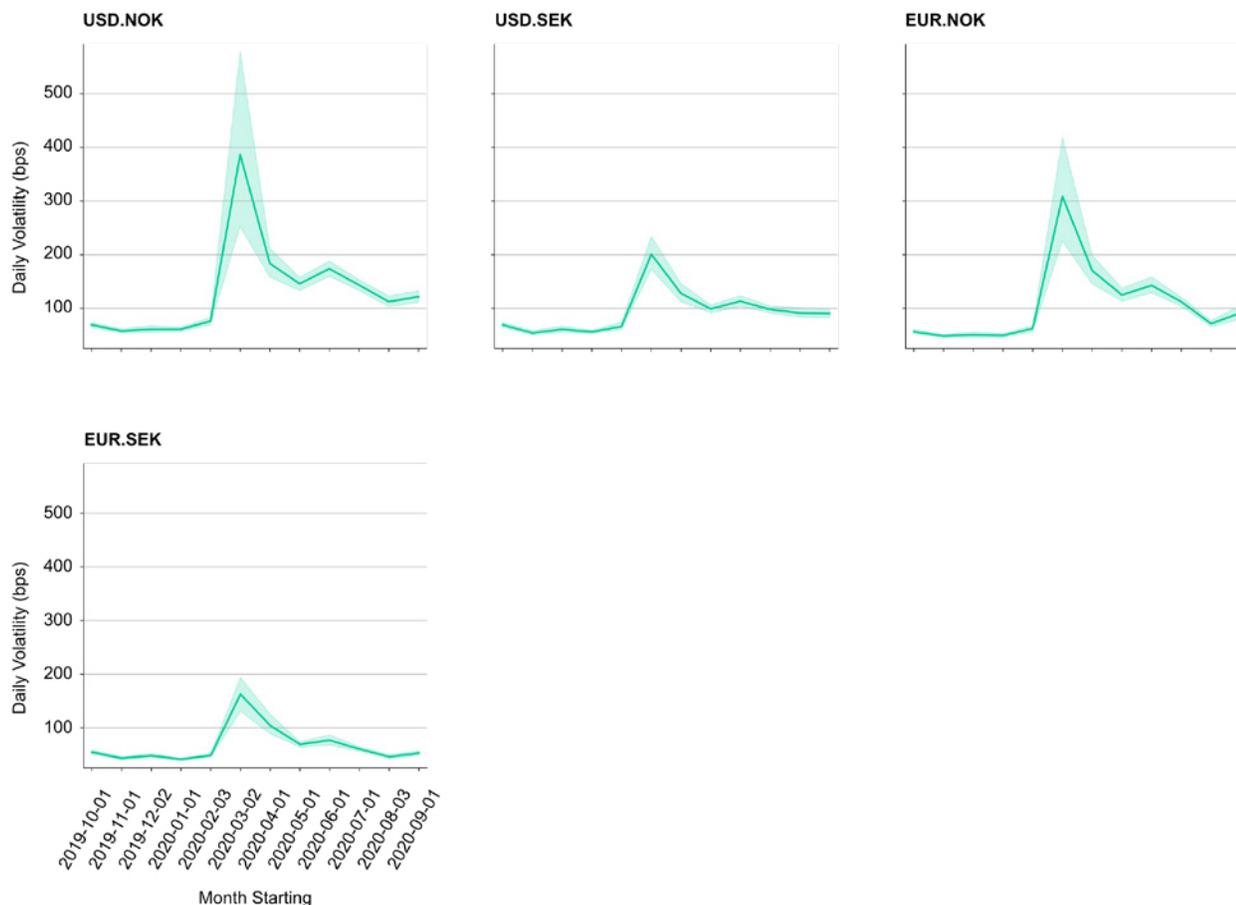


Source: Virtu Financial.
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Scandinavian G-10 Currencies: Average Daily Volatility, 12-4 PM GMT

October 2019 to September 2020



Source: Virtu Financial.

Spread and volatility calculations derived from sources that Virtu believes to be reliable but Virtu does not make any claims to its accuracy.

Have questions? To learn more, contact your Virtu Analytics representative.

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