



# European Equities Market Microstructure Survey

2020

## Introduction - The Year In Charts

At the end of the most tumultuous of years, we are pleased to introduce our annual review of the European Equities markets. The review offers a different perspective by highlighting the ebb and flow of market volumes that indicate changing investor appetite for the asset class. This appetite evaporated in record style during the first quarter of 2020 and is only cautiously seeping back, a story that is echoed by equity index values.

As you have probably already had enough of year end reviews, we will steer away from the recaps and the explanations, and do what we do best, which is to give you the data to form your own conclusions.

This summary builds on 600 million data points captured every day (just in Europe), and we have plenty more if you want to look deeper into individual shares and sectors.

10% increase  
in 2020 trading  
volumes  
over 2019

23% increase in  
H1 volumes  
over 2019

13% decrease in  
H2 volumes  
over 2019

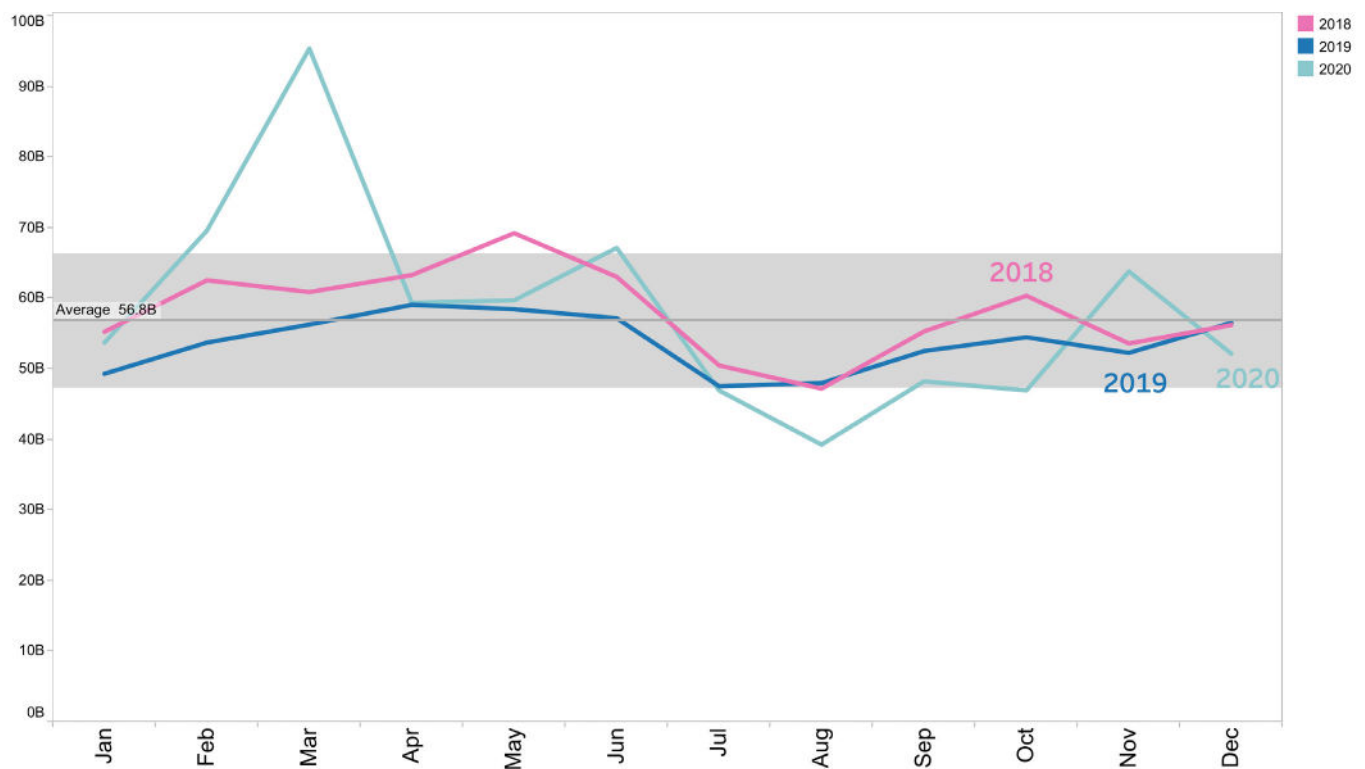
€95B per day  
traded in the  
record month of  
March

€132B traded on  
February 28th

The 7 largest  
trading days in  
3 years  
between Feb 28th  
and March 20th

# The Big Dipper

Average Daily Volumes, 2018 to 2020



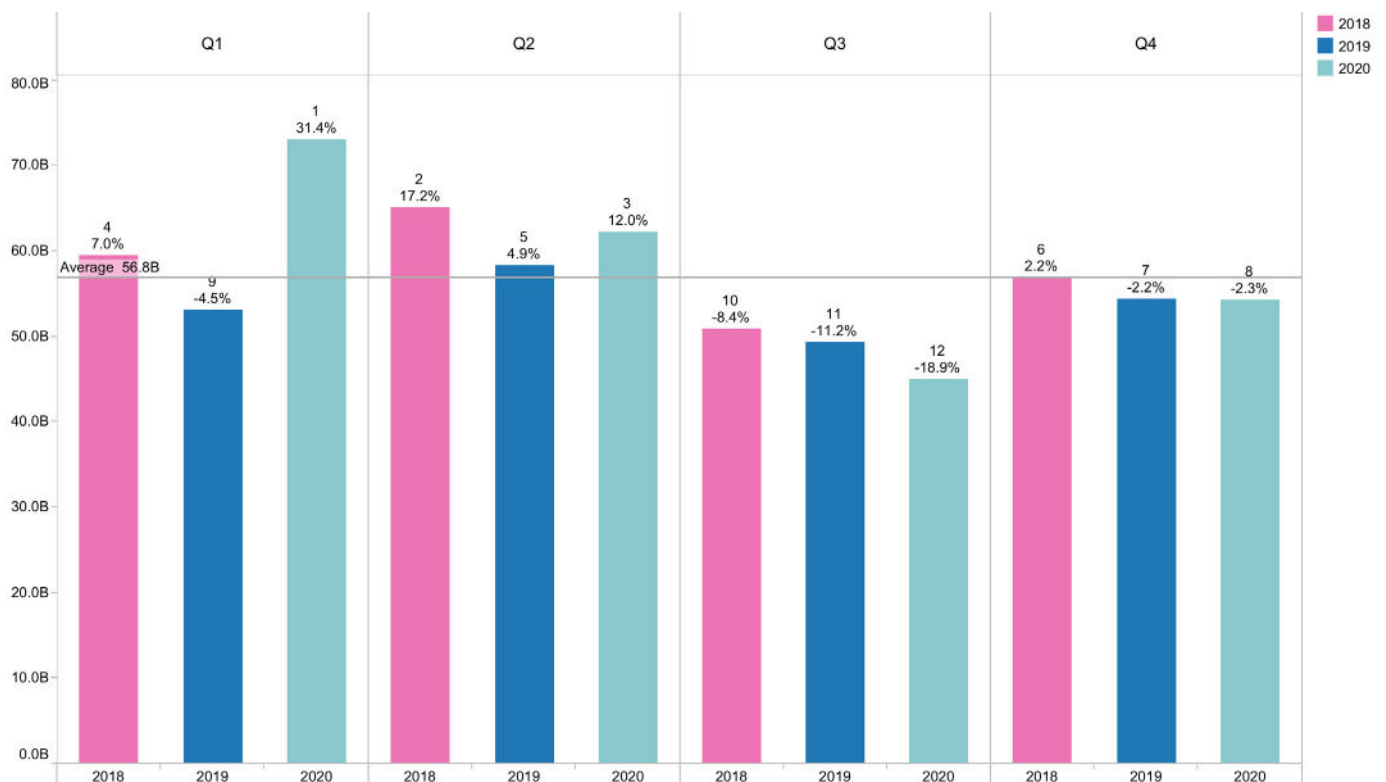
Average Daily Value (ADV) traded since the beginning of MiFID2 has been €56.8B and until 2020 remained within a tight band of €10B either side for all but one month, back in May 2018.

March 2020 was an extraordinary event that we would expect to see no more than once every decade and perhaps even longer, and contained seven days with volumes that we would expect to see only once every three years.

However, at the other end of the scale, August was another very rare event, among four consecutive months which matched or set new lows for the MiFID2 era.

# Sell In May, and Go Away

Market Overview - Quarterly ADV€

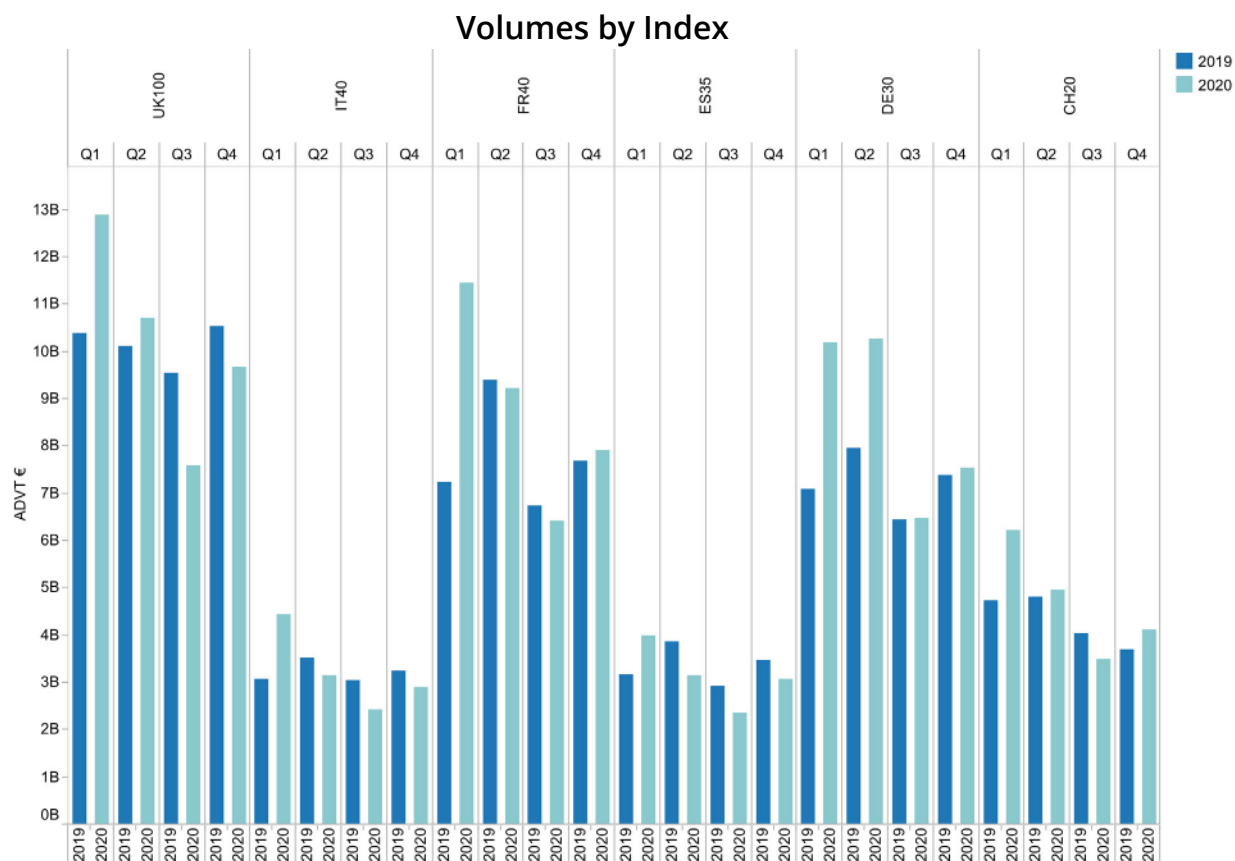


The traditional advice held firm this year, although we certainly started early on the selling. In the first quarter of 2020, market volumes rose 31% above the average, setting the MiFID2 era record high.

Typically, second quarter is the busiest of the year, with increased activity around dividend season and a large semi-annual index re-shuffle. A period of relative calm prevailed in April and May, perhaps as a 'wait and see' approach began to develop. In June, the jitters returned and set the scene for a summer in the doldrums with trading volumes reaching a new quarterly low 19% below the three year average.

Without the news of vaccine approvals in November, and two further large re-shuffles, Q4 could easily have remained around those summer levels. Normally the busiest month of the second half, October saw 'summer months' style volumes, dropping by the equivalent value of a whole month of trading in the UK100 index. With December bringing more negative case statistics and lockdowns, market volumes took yet another dip, a reminder of how sensitive the markets remain to this crisis

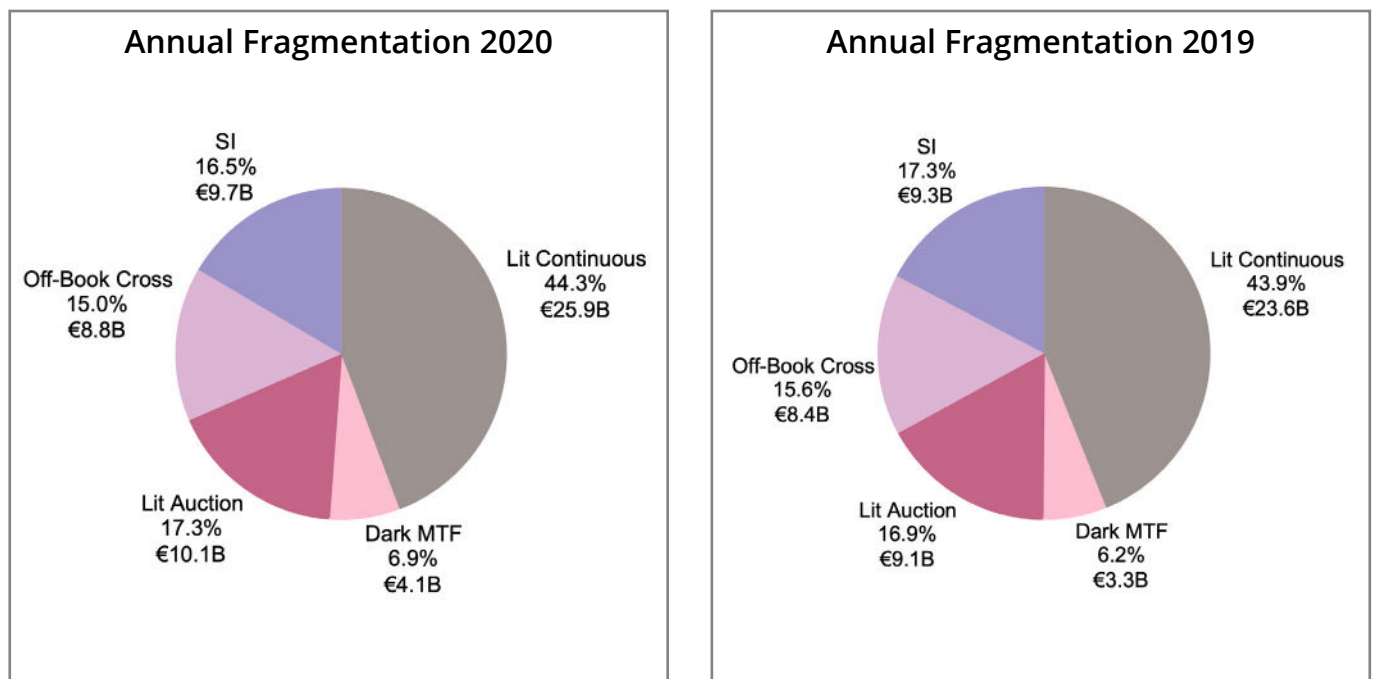
# The Local View



For the bigger indexes, the pattern was fairly consistent in the first half, while the UK, Italy and Spain bore the brunt of the drought in the second half. Although all these indexes were down in Q3, the large cap indexes in France, Germany and Switzerland all prospered.

For the Scandinavian countries and the Netherlands, the pattern was slightly different. Every country index except Norway increased volumes over 2019 in each quarter.

## Market Fragmentation Remains Stable



\*Daily Value Traded in €

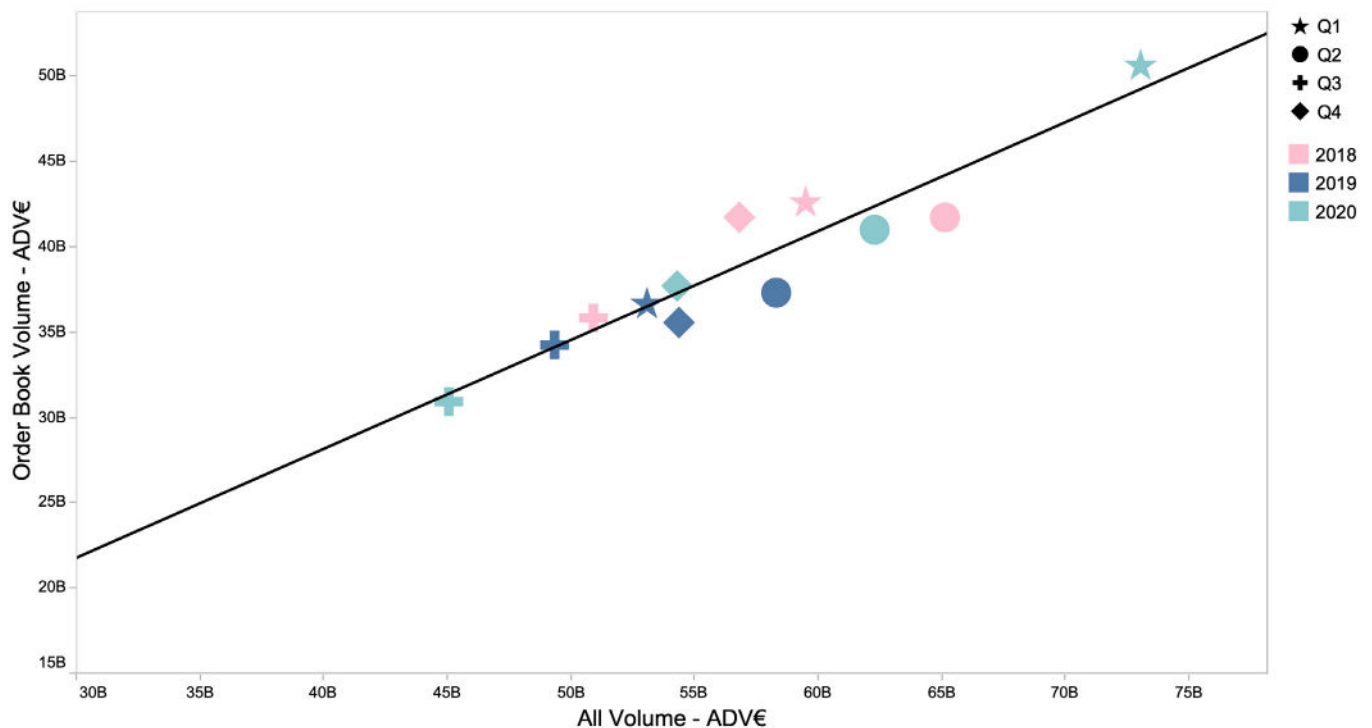
As with prior years, the industry continues to debate the optimal market structure for equities trading, and in particular whether the lit order books that underpin price formation are giving up liquidity to dark pools, closing auctions and Off Order Book trading.

It does not appear that the crisis has had a significant impact on these topics so far. The balance of On Order Book trading versus Off Order Book trading swung by 1.3% in favour of the order books in 2020, reversing a 2.8% swing in the opposite direction from 2018 to 2019. Lit, intraday order book trading ('Lit Continuous') accounts for 0.4% of this increase, dark trading for 0.7% and the Auctions for 0.4%.

Despite huge volatility and record volumes, the basic processes of liquidity provision and access seem to remain very stable, which is probably a reflection of the dominance of electronic execution. On the next page, we show how this has held for the three years of MiFID2.

# Off Order Book vs On Order Book

Order Books v All Types of Liquidity - ADV€

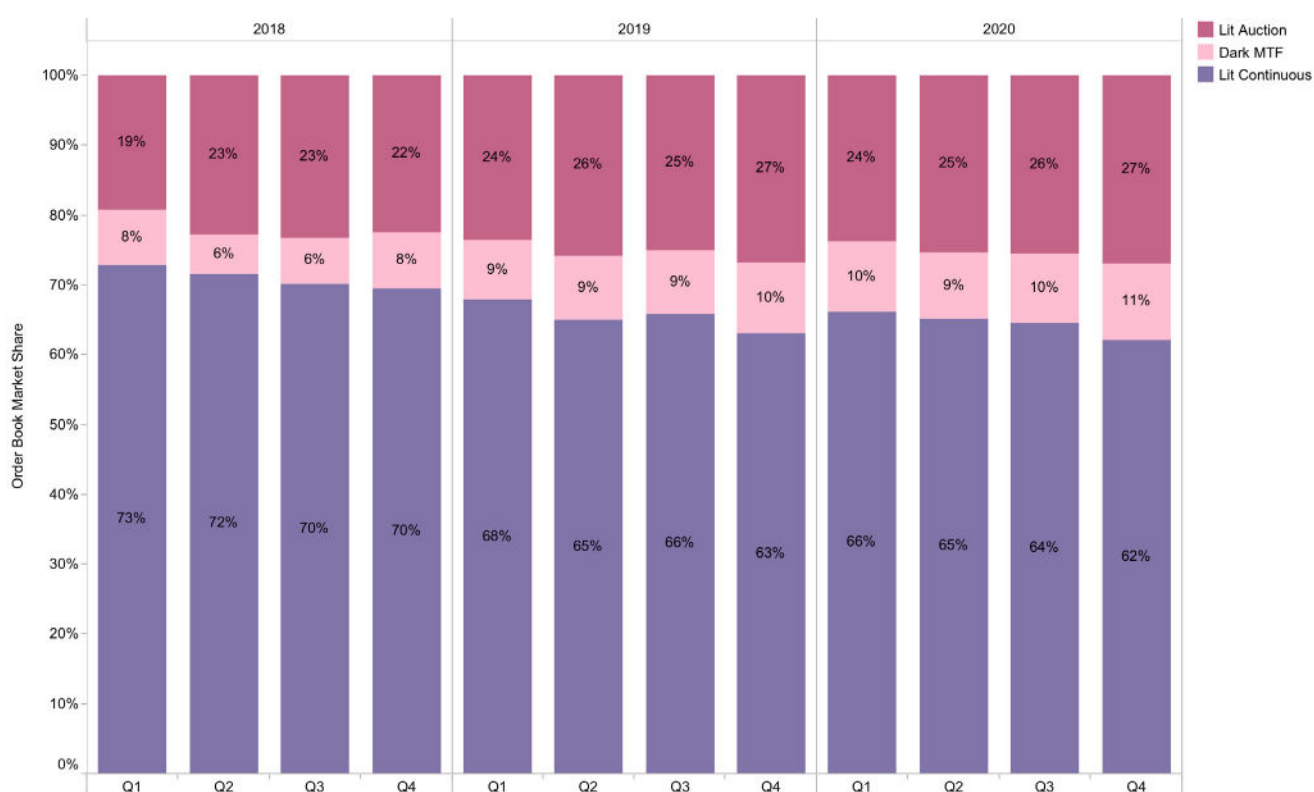


The proportion of order book trading to overall market volumes remained very close to the long term trend in 2020. There is a slight decrease in order book trading during Q2 of each year (see the circles), which is typical of dividend season when large block trades take place away from the order books, and we see that order book trading takes a little more market share when markets are busy.

2020 (the aqua blue shapes) conforms to the pattern. Q1 (aqua blue star) is the busiest quarter in three years and sits just above the trend line, while Q3 (the aqua blue cross) is the quietest quarter and sits slightly below.

# Inside the Order Books

## Inside the Order Book - Continuous, Auction and Dark Trading



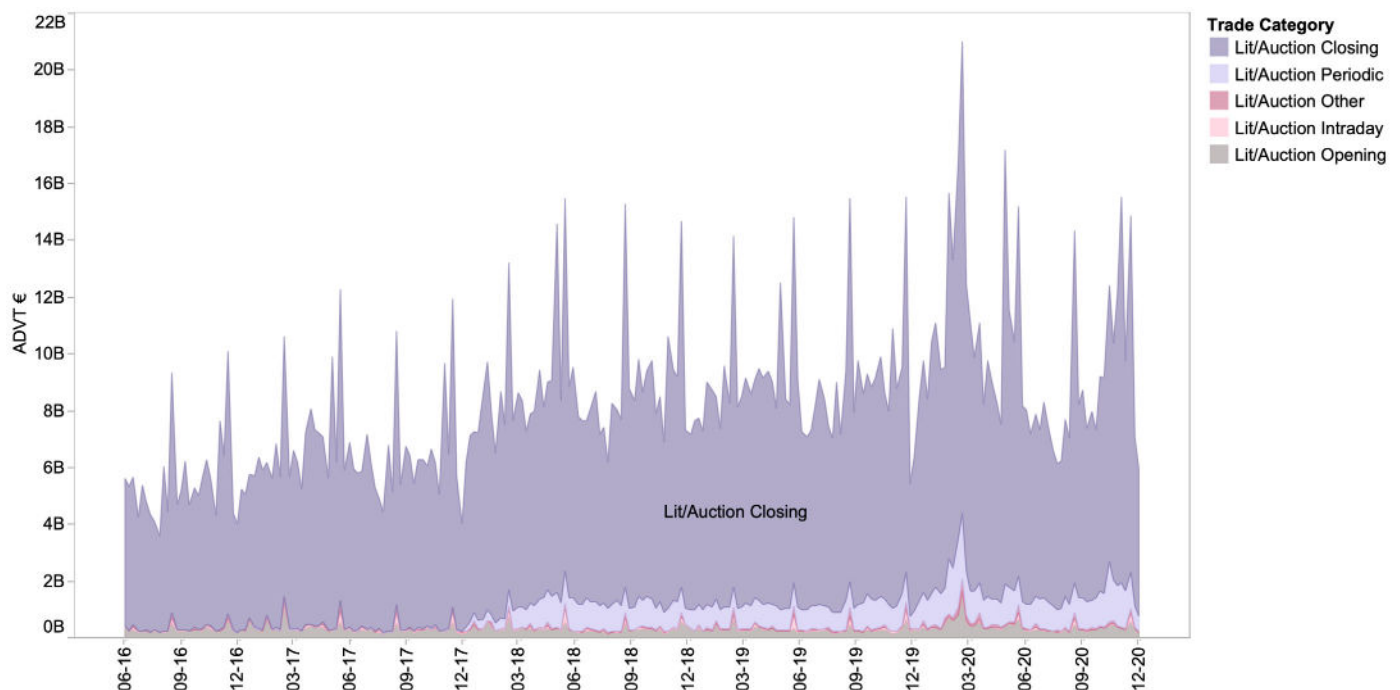
A view inside the order books reveals the resumption of the long term pattern for intraday liquidity to move into the Closing Auctions, which was briefly suspended in Q1 2020. By Q4 2020, intraday continuous lit order book trading had 11% less share of all order book liquidity than in the first quarter of MiFID2.

The trend originates in the rise of passive investment, where funds execute their trades in the last part of the day. As the Close exerts a stronger gravitational pull on liquidity, intraday traders must delay their execution until later in the day or rely on market makers and dark venues. We also saw a 0.7% increase in dark trading in 2020.

Four years ago, the level of auction market share was under 20%. By Q4 2020, it had reached 27%, and 29% in December.



## Inside the Auctions



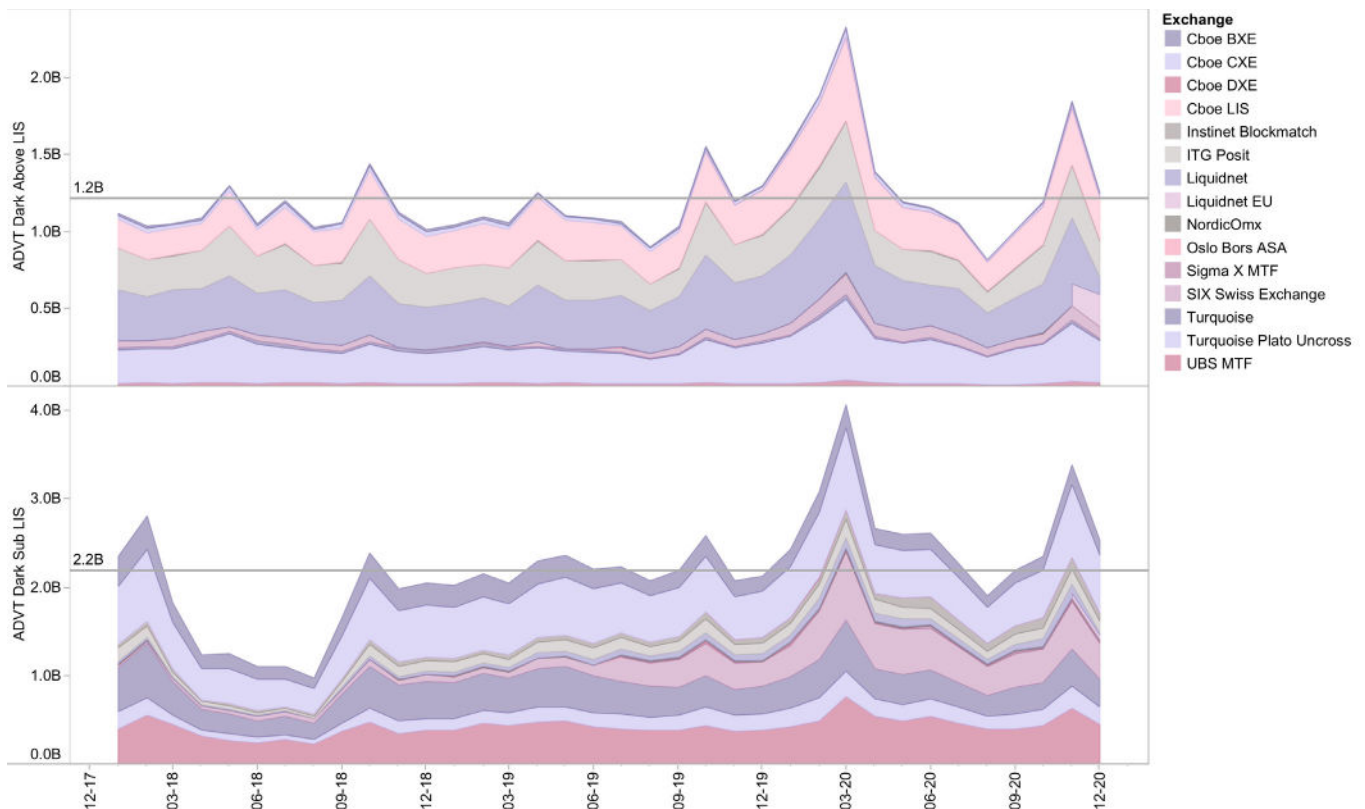
There are several types of auction at play in the European equities market. This weekly chart of ADVT confirms that it is the inexorable growth of Closing Auctions in particular, and not Alternative Trading Mechanisms such as periodic or 'continuous batch' auctions that are taking market share.

Incidentally, the spikes in the chart demonstrate the regular heartbeat of the market's futures expiries and index reconstitutions, interspersed with volatile price movements

One of the few records that did not fall in 2020 was that of the biggest Closing Auction, which was €36B on September 21st 2018, although September 18th 2020 was in hot pursuit with €33B.

In 2020, we saw a 43% increase in periodic auction value traded versus 2019, 42% increase in Opening auctions and 33% increase in auctions caused by volatility halts, but all from low values that do not reflect a significant shift in liquidity.

## Dark Trading

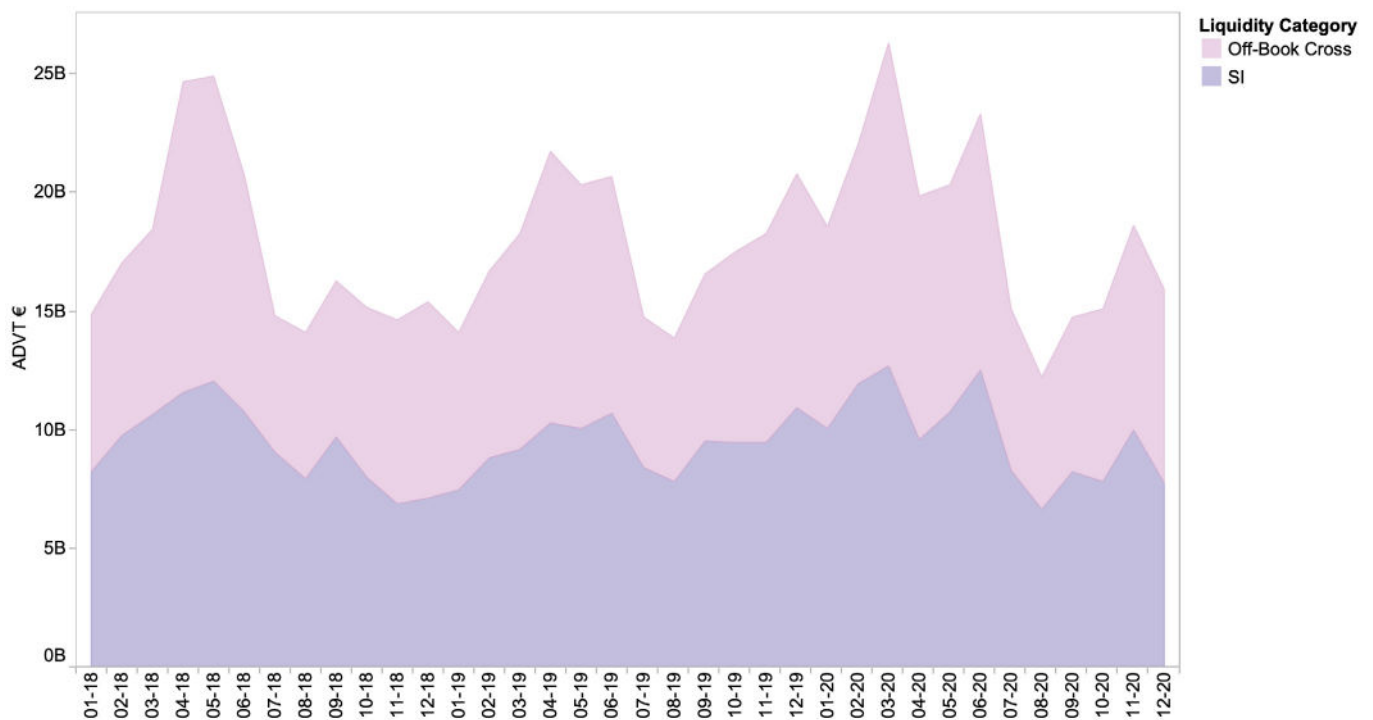


Our chart shows dark venue monthly ADV traded in € since MiFID2 began, and is categorised into smaller trades (bottom half) that are subject to dark trading volume caps, and larger trades (top half) that are not.

Dark trading was substantially reduced for small trades as these caps were first implemented in Q1 2018, and then mostly removed six months later. Since then there has been very little change in both the market share and value traded in dark pools.

We also show the trading venues that provide dark trading services, where again we see little substantial change in market share except for the growth of Swiss share trading in late 2019 on SIX as the rules on equivalency changed.

# Off Order Book Trading



If you are still with us, you are probably interested in this important subject which continues to be a hot topic in the industry. The concern is about whether too much Off Order Book trading, or perhaps too little On Order Book trading could damage price formation and therefore increase trading costs to investors.

We show the two types of Off Order Book trading in our graph – Systematic Internalisation (which is another name for market making, providing liquidity to the market through trading a firm’s own capital) and Off Book Crosses which are traded manually by brokers.

We see little change in the profile of Off Order Book trading over the long term. In Q1 2020, Off Order Book rose in terms of absolute value, but as seen earlier, not by market share. Off Order Book trading increased by 4% in 2020 versus over 10% for the market as a whole.

## Looking Into 2021

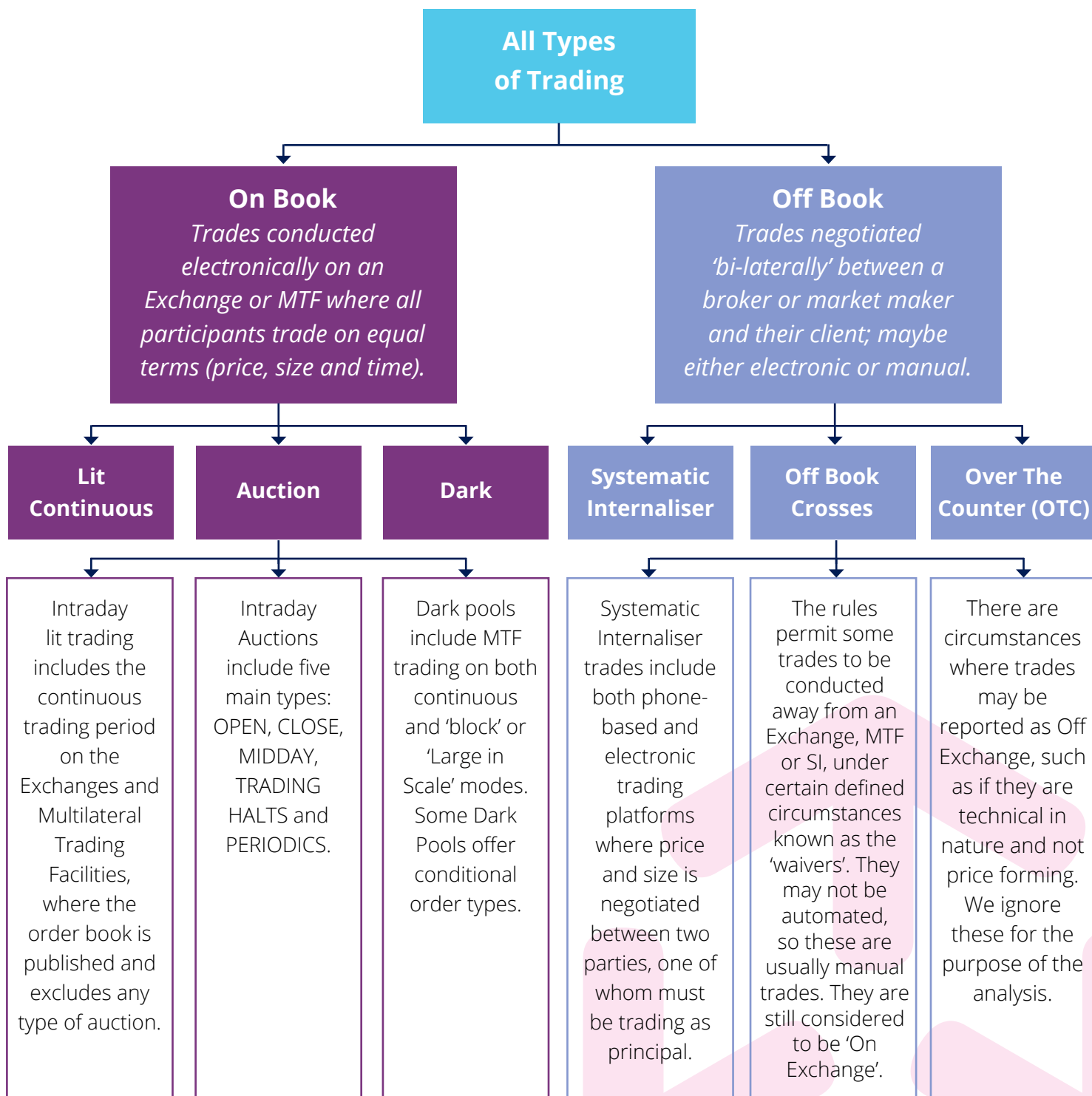
It is usually around this time of year that people make their predictions. That might be a bit brave at the moment, however, we will be tracking some of the key themes:

- Several MTF venues launched EU-based entities to accommodate their EU trading activities. While unlikely to cause further fragmentation to the market, it means there will technically be a few more venues to follow. The impact of Brexit will also be something to watch.
- We will continue to support the debate around Off Order Book trading, in particular SI trading, and we expect to see further activity from the regulators in 2021. Perhaps this year we will also see the shortening of the trading day as a means of concentrating liquidity, which stubbornly continues to shift towards the Close.
- We will monitor the growth of Alternative Trading Mechanisms, such as those launched by Aquis, Turquoise and Cboe last year, which aim to introduce greater competition in the ever expanding Closing Auctions.
- With comprehensive trading data covering all global markets in equities, ETFs and many derivative and foreign exchange products, big xyt is able to provide many services to support your trade execution, including pre and post trade analysis, best execution and portfolio analytics. We also provide bespoke data solutions for custom applications.

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For more information, please contact us at [sales@big-xyt.com](mailto:sales@big-xyt.com).

# Appendix: European Microstructure 101





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