

## EUROPEAN MARKET MICROSTRUCTURE SURVEY

Survey of volumes and market share  
May Update - 2020

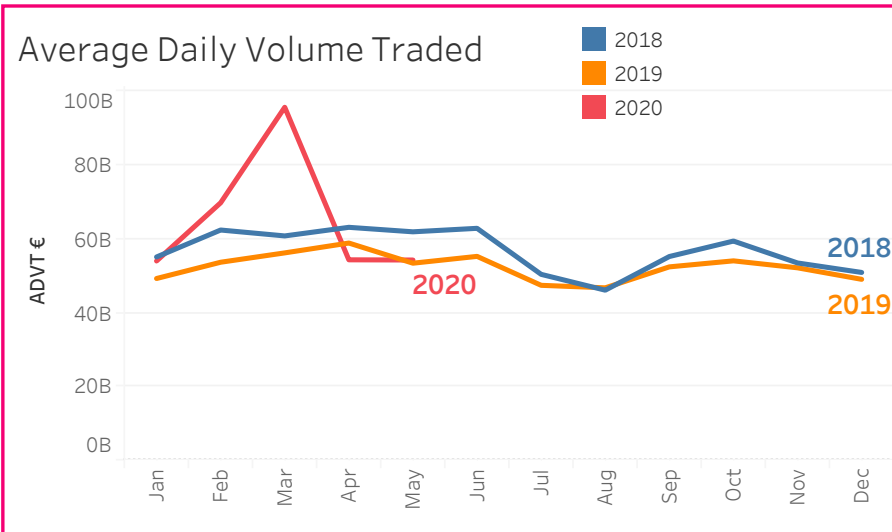
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## INTRODUCTION

1. Building on comprehensive daily collection of trading tick data, this survey presents information on market volumes, describes how liquidity is distributed between different types of trading venue and how that is changing over time.
2. This information is essential context to investors and traders in defining and optimising their execution strategies. Together with other analytical tools, it helps to inform how best to capture liquidity and monitor trading performance. It is produced in conjunction with our Liquidity Cockpit application which can provide daily updates and more detailed analysis.
- 3. In this monthly update to the survey, we look at May 2020. We provide some high level observations of the trends and we welcome feedback and ideas for further areas of analysis. We have adjusted the model since the Q1 Survey to remove SI trading in non European names and funds, giving a better representation of the landscape in European equities.**
4. The scope covered in this review is European liquid index names. We mostly limit the analysis to the Mifid2 era when changes to trade reporting led to more reliable off order book data. We include both on order book and off order book trading but we exclude those trades that we consider to fall outside of price formation processes.

## MARKET VOLUMES OVERVIEW

Q2 volumes return to long term average levels of 54B€ ADVT.

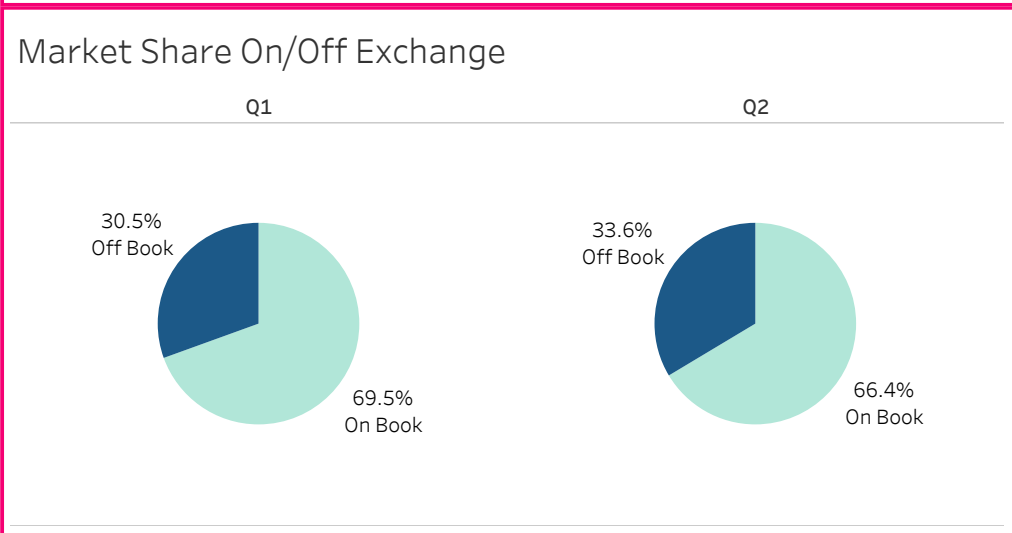


As seen on the left of this page, market volumes in April and May were almost identical at 54 B€ ADVT, and have returned to long term historical levels. Following the bumper month of March, both April and May were just 4% higher than 2019 average (52 B€).

Overall, year to date volumes in 2020 remain 26% higher than 2019, despite Q2 being back to normal levels.

The below pie chart shows the fragmentation of the market (On Order book is Exchange and MTF trading). We observe that On Order book market share has reduced by 2.9% from Q1 to Q2, reversing the 3.3% increase in March share from Q4 19 to Q1 20. Just like volumes, Q2 On Order book market share is back in line with historical patterns.

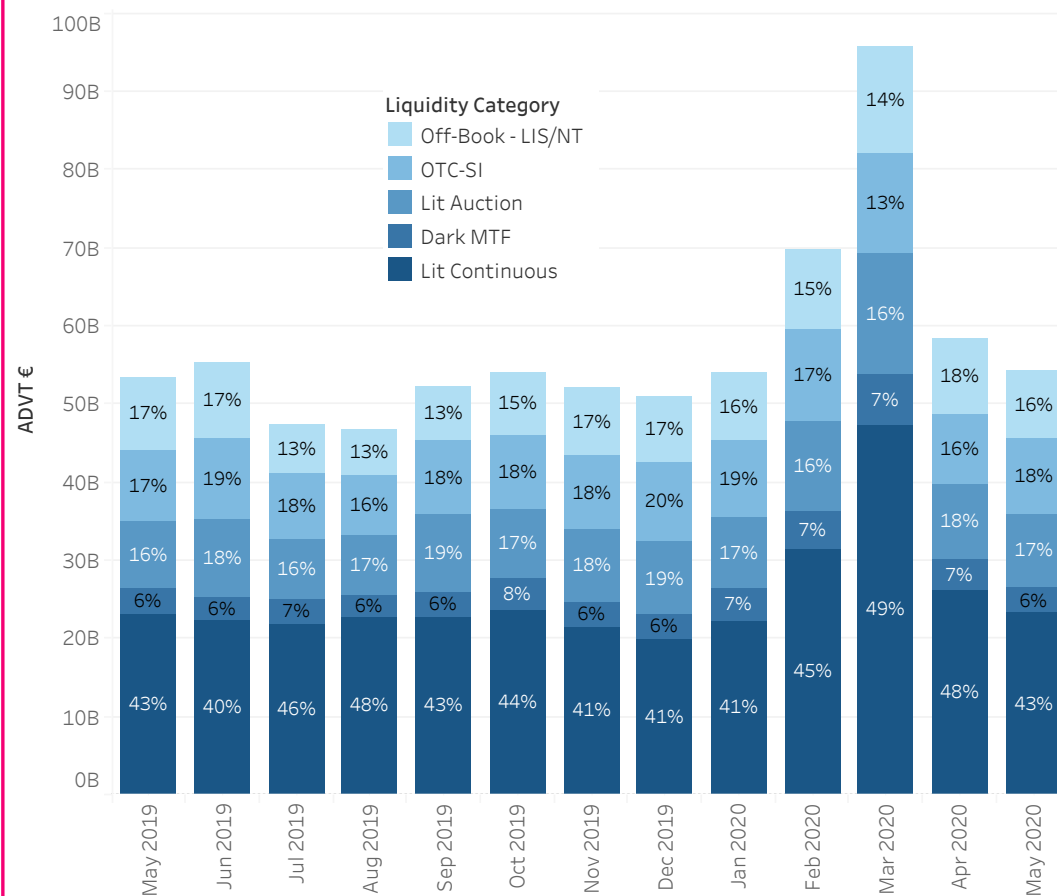
Quarter of Date	2018			2019			2020		
	Traded Value €	ADVT €	% Chg ADVT	Traded Value €	ADVT €	% Chg ADVT	Traded Value €	ADVT €	% Chg ADVT
Q1	3,732B	59B		3,332B	53B	-3%	4,683B	73B	41%
Q2	4,001B	63B	6%	3,506B	56B	5%	2,331B	54B	-26%
Q3	3,268B	50B	-20%	3,214B	49B	-12%			
Q4	3,505B	55B	9%	3,363B	52B	6%			
Average	3,626B	57B		3,354B	52B	-8%	3,507B	66B	26%



## FRAGMENTATION:

Market share patterns are resuming the normal trend. Less volume = more SI.

Average Daily Volume Traded



### SI Trading recaptured most of the market share lost in March and April to Lit Continuous trading.

Volume distribution has returned to the long term patterns with Lit Continuous resuming a level of around 43% of overall ADVT, Dark Trading at 6%, Auctions at 17% and Off Order Book trading at 34%.

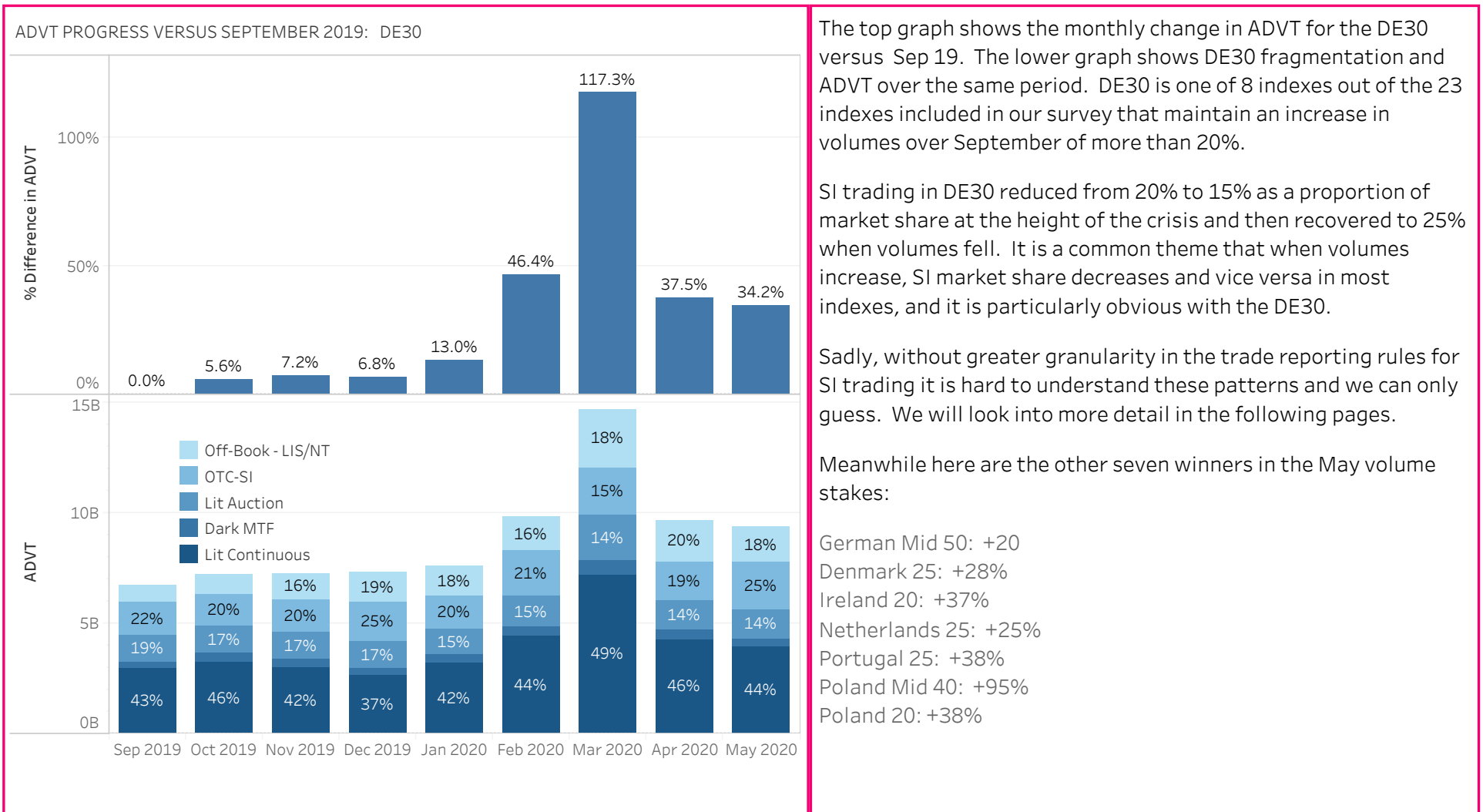
Although it is early days it indicates that the crisis has not fundamentally changed the way the industry is trading. We noted in our Q1 review that volume redistribution from Q4 to Q1 was limited to only ~3%, and that seems now to have been completely reversed.

Lit Continuous trading lost all the gains made in Q1, falling from 49% of the market in March to 43% in May, and back to 2019 levels. Most of this market share returned to the SI trading, which grew from a 2 year low of 13% of market share in March to 18% in May, back in line with 2019 levels.

There are country level differences which can be seen on the next few pages.

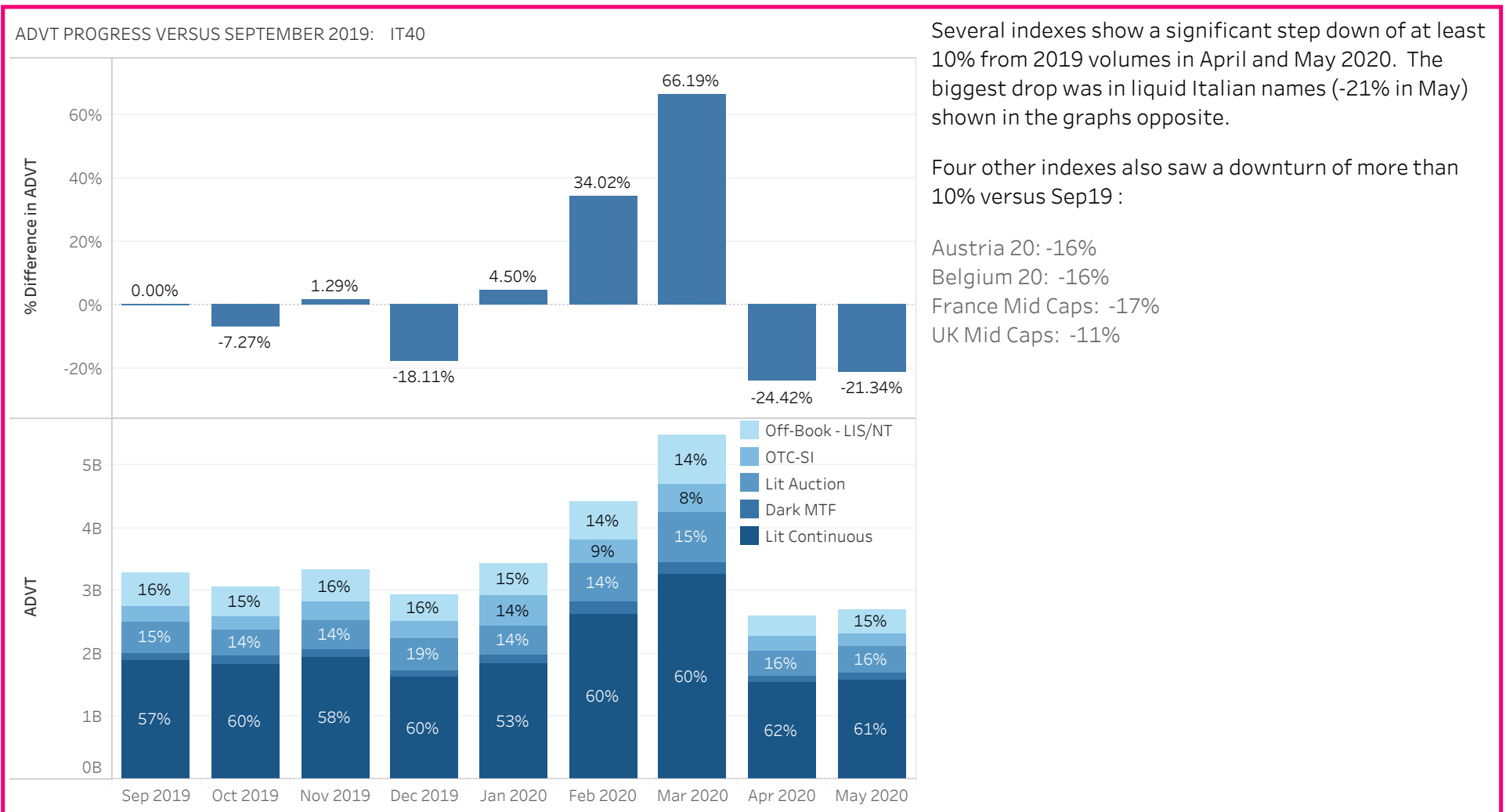
## Risers and Fallers

Looking beyond the average reveals country variations. Eight indexes maintain volumes at >20% versus Sep 2019.



## ...Fallers

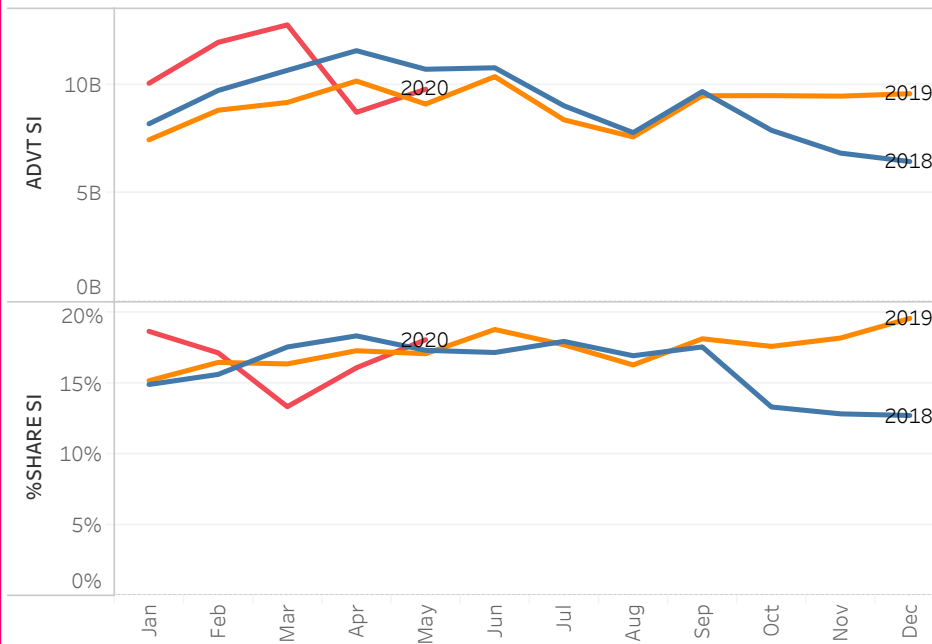
Five indexes maintain volumes more than 10% below Sep 2019.



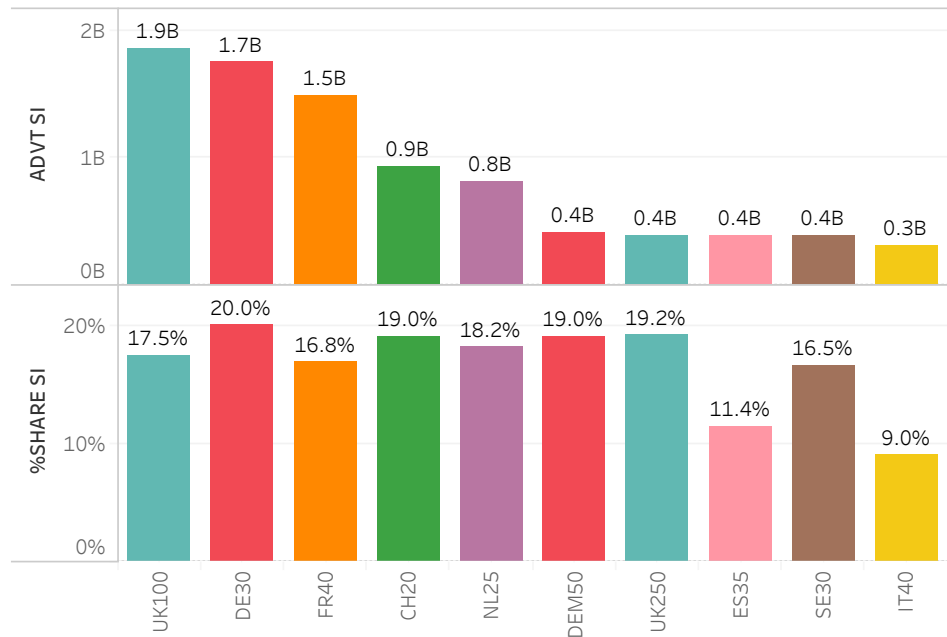
## Systematic Internalisation

Market share returns to 2019 levels.

Market Share and ADVT € since January 2018



Top 10 Indexes by SI consumption - last 9 months.



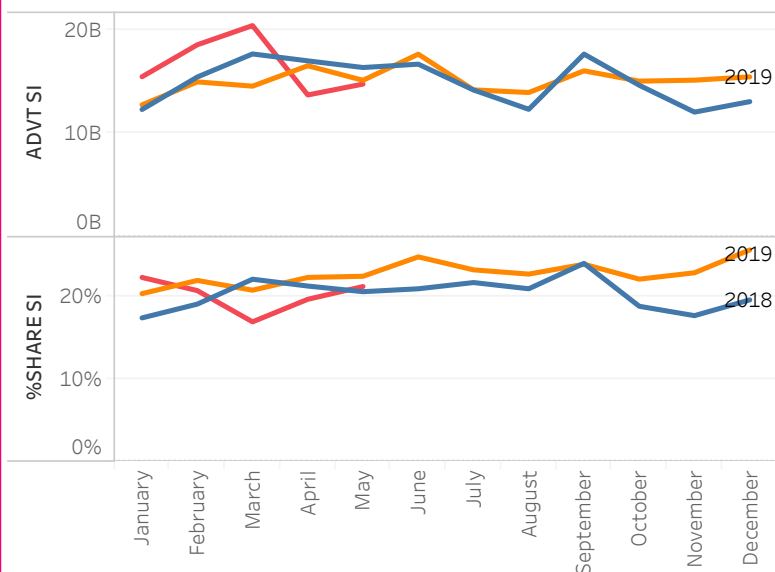
SI volume has been very stable since the beginning of Mifid2, remaining mostly in a band of between 15% - 20% market share, and ADV of 8-12 B€, with little sign of that growing. SI market share is highly concentrated, with some 30 large cap index names accounting for 50% of volumes. SI trading tends to fluctuate by ~3.5% with overall market volumes, gaining market share when volumes are low and vice versa.

The top 5 index names that are most traded in SI over the last 9 months are Roche (201 M€ ADVT), Bayer (194 M€), SAP (181 M€), Nestle (180 B€) and RDS (156 M€) together accounting for around 10% of SI volume. Does the prominence of the Swiss names reflect the reduced choice of venue in the CH20 index since most lit continuous trading moved onto SIX which as we noted in a previous blog became the top European Exchange in March?

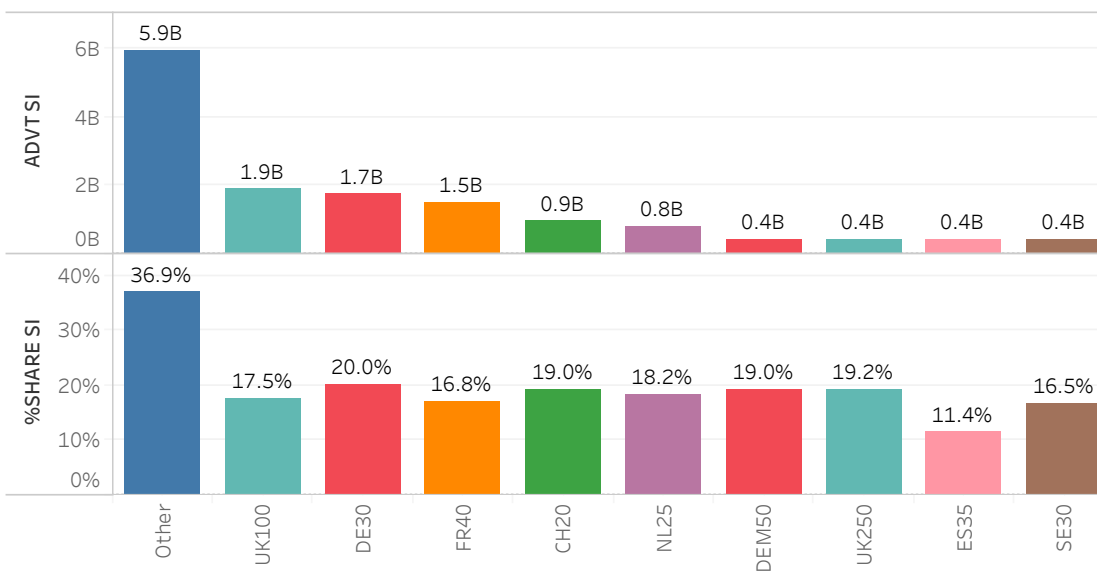
## Systematic Internalisation

SI trading outside the main indexes is 1/3 of overall SI value.

Market Share and ADVT € since January 2018



Top 10 Indexes by SI consumption - last 9 months.



Regular readers will spot that in previous surveys, we reported SI ADVT at ~15B€ whereas on the previous page we show the volume at ~10B€. As part of our ongoing adventures through the murky world of off order book trading, we reveal that around 1/3 of SI trading is in non European and non index names, including many UCITS funds. There seems to be merit in looking at this type of trading discretely from trading in European index names and so now we have excluded it.

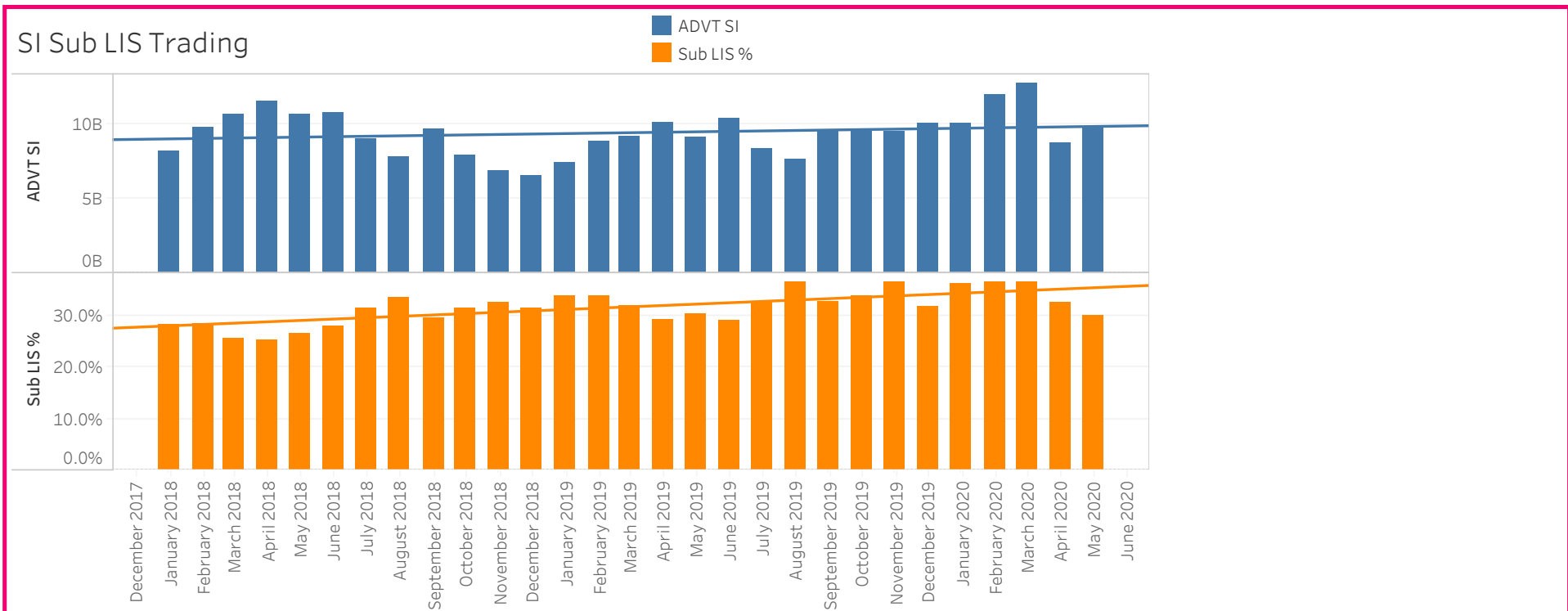
We have conducted detailed analysis of SI trade reporting codes (and other Off Venue categories). This is beginning to reveal some interesting patterns (we give an example on the next page) and as the debate on the extent and usefulness of the SI category for trade classification heats up, we will publish our findings in forthcoming surveys.

The biggest names traded through SI outside of the Indexes are Apple at 273M€ ADVT, Alphabet at 133M€ and Microsoft at 118M€.



## Systematic Internalisation

Although the SI category changes little, we see a reduction in block activity in favour of smaller trades.



In looking for patterns within the SI category, we notice that there is a steady increase in the level of sub LIS trades since the beginning of MiFID2 from ~28% to ~32% of SI traded value .

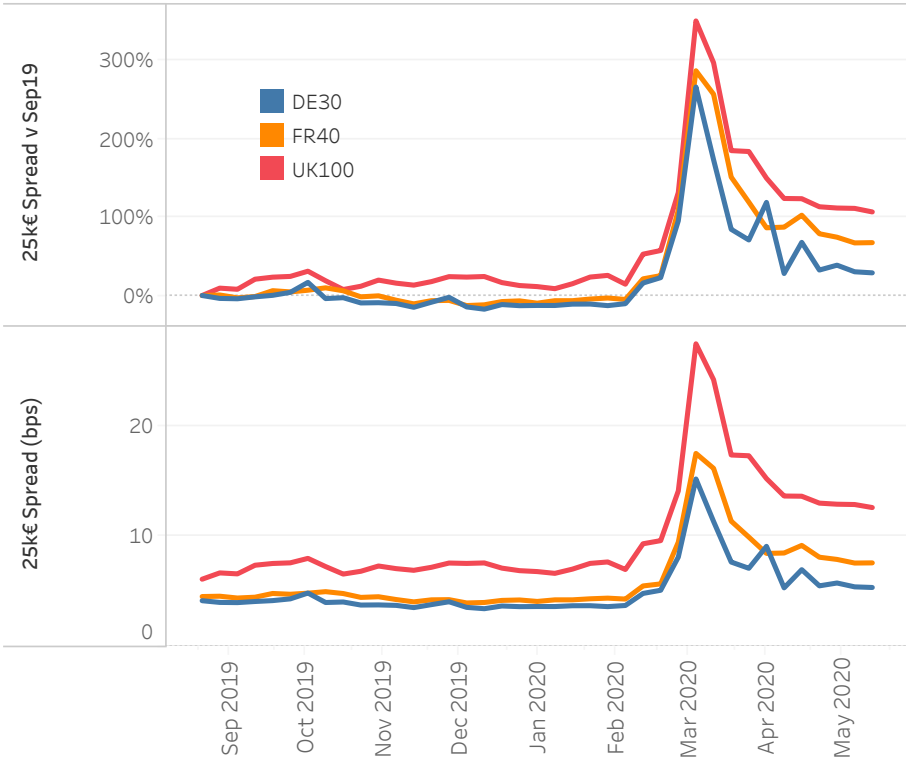
We believe this is due to the growth of automated platforms operated by electronic liquidity providers within the investment banks and proprietary trading groups. The SI category trade reports are not yet sufficiently detailed to be able to determine that this is the cause.

# POSTSCRIPT

Just as a final reminder that things are not back to normal, this set of charts show that while volumes and market share are back to the same levels as 2019, market quality metrics indicate ongoing uncertainty.

The charts show the weekly evolution of spreads since September 2019, both in absolute terms (in bps) and the %change since September for each index. For the most liquid high cap names in Europe, spreads remain around well above their pre crisis levels. The top 35 Spanish names peaked at nearly 8x normal levels during the week of March 9th. The top 20 Swiss names where spreads have recovered the most are still 34% higher than September.

25k€ Spread v Sep 2019 by week for DE30, FR40, UK100



25k€ Spread v Sep 2019 by week for CH20, ES35, IT40

