



European Equities Market Microstructure Survey

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Q2 2021

Summary – Despite Rising Prices, a Disappointing Quarter for Volumes

Welcome to our latest quarterly survey of market volumes and fragmentation trends in European equities. If you are unfamiliar with the topic, we encourage you to visit our website to read our **Microbites series** for an explanation of European market microstructure.

With the major European indexes enjoying substantial price gains in H1 2021, we might have expected a similar boost in market volume. However the quarter just finished was the weakest Q2 in over four years.

In this edition of the survey we have added a view of the ETF market, which by contrast has grown in volume terms by 6.5% versus 2020, albeit on a cross-asset basis.

For a comprehensive view of market volumes and many more metrics on all the European indexes and trading venues, please visit our **Liquidity Cockpit**. If you are not already a subscriber, please **request a trial**.

**Q2 equity volume
matches long
term ADVT of
55B€**

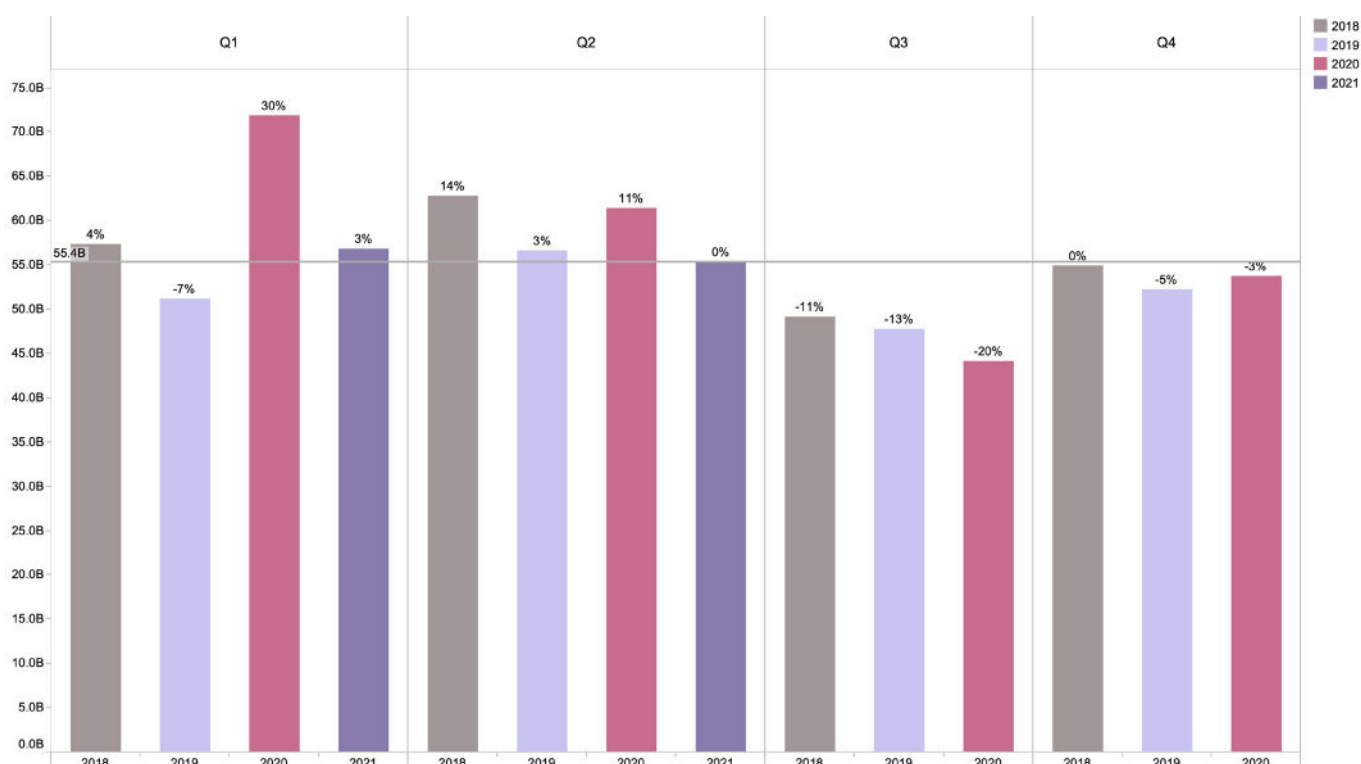
**3% decrease in
volumes over
Q1**

**10% decrease in
volumes from
Q2 2020**

**Turnover in
FR40 now larger
than DE30 or
UK100**

Stable Market Volumes Mask Significant Changes

Market Overview - Quarterly ADV€

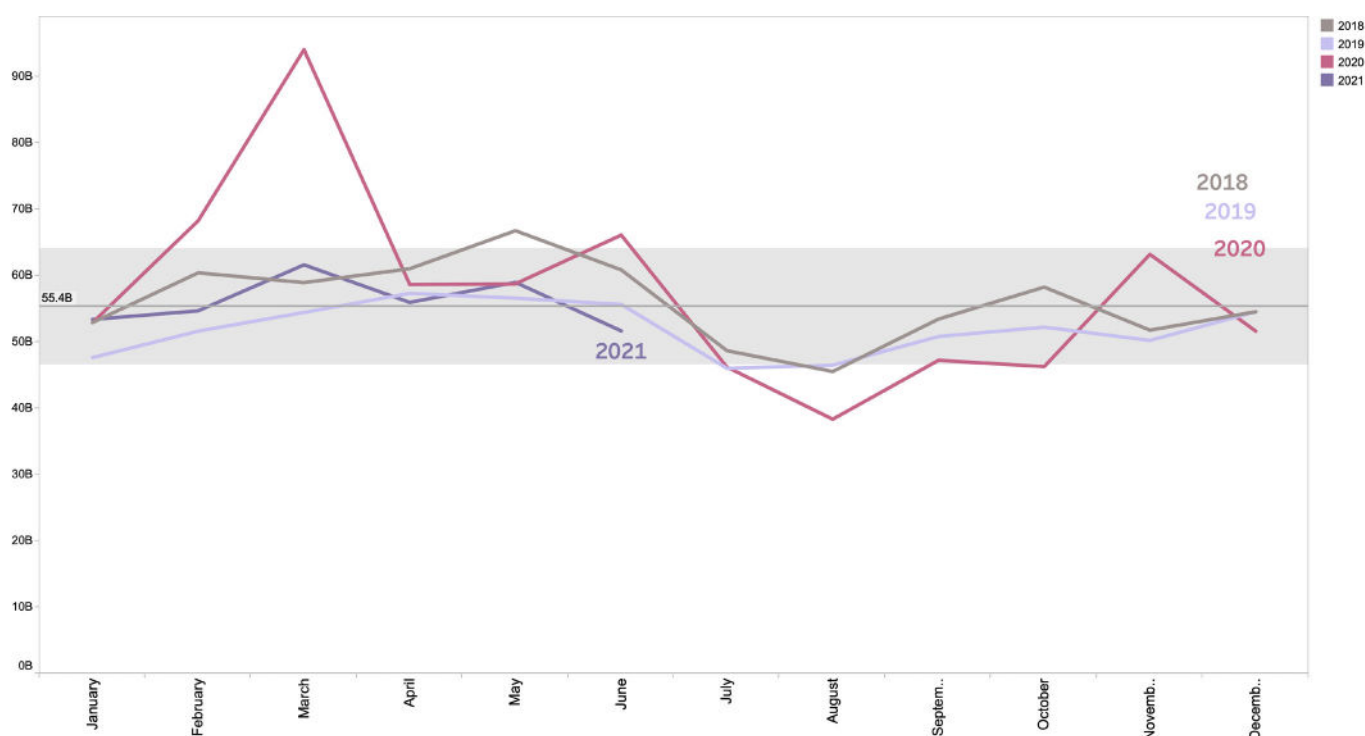


With European equities AUM topping 22T€ for the first time, and the DE30, CH20 and FR40 at or close to all-time highs, we were surprised to find Q2 2021 ending as the slowest Q2 in four years, even behind the drought of 2019. Digging into the details reveals a complex pattern with companies recovering from the crisis and prospering at very different speeds. It is a reminder of how trading data can complement the overall investment process, especially when it comes to market sentiment.

For example, ASML Holdings NV became the most traded stock in Europe for the first time, knocking SAP SE off the top and down to 6th. TotalEnergies SE moved from 7th to 2nd, displacing Royal Dutch Shell plc into 3rd place as the most traded energy name. In the automotive sector, Volkswagen AG gained 30% ADV and rose from 22nd to 10th in Europe, with Daimler AG following in 11th place, up from 19th.

Summer Came Early

Monthly ADV€, 2018 to 2021

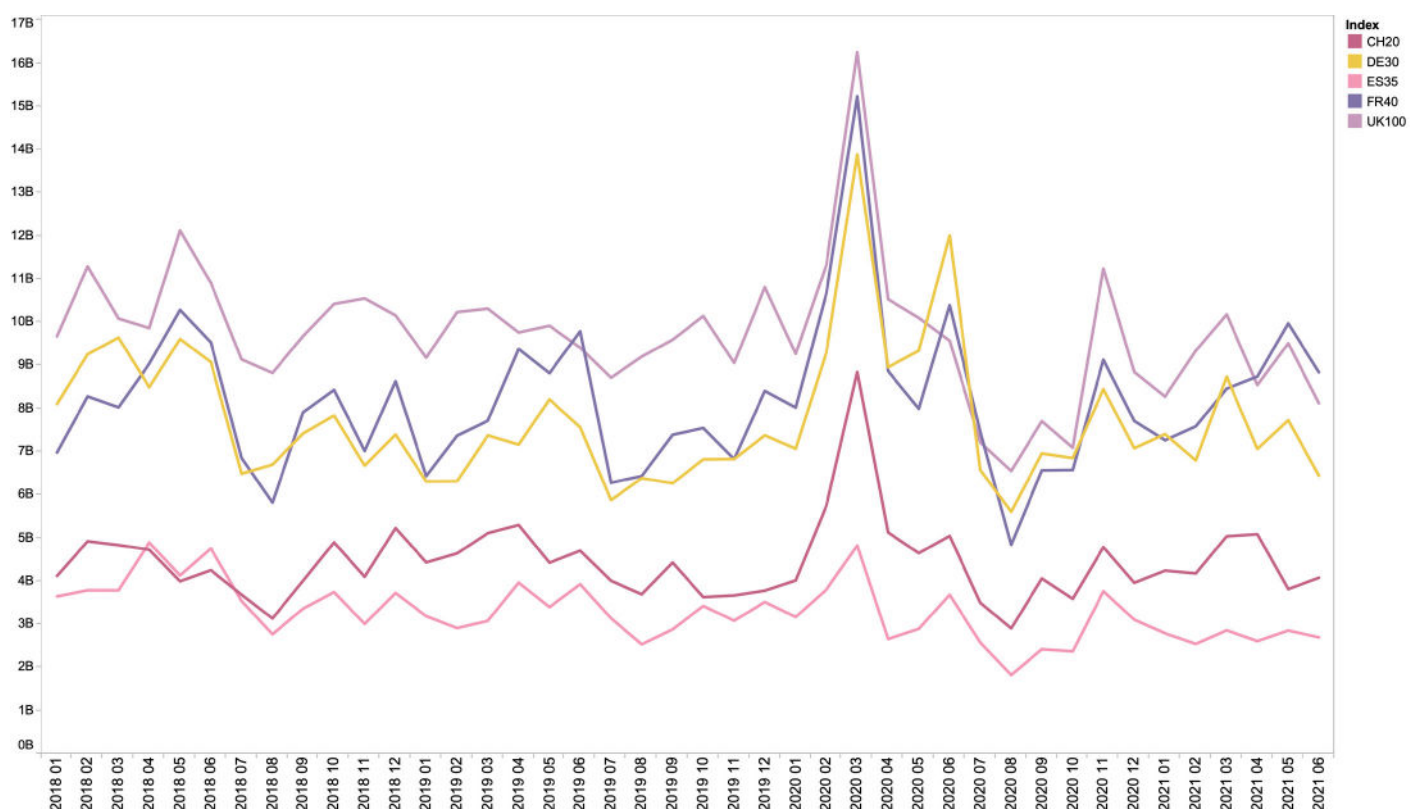


Both April and June recorded the lowest volumes of their corresponding prior period months since 2018, and it appears that the summer break started early as the normally buoyant month of June sagged 6% below the long term monthly average. Even the lively FTSE Russell and MSCI index reshuffles failed to provide the usual tonic. Q2 is normally strengthened by dividend season which this year could be affected by regulatory constraints on payouts.

With record high market cap across Europe, the stagnant volume picture points to a growing lack of liquidity, and the need to keep a careful eye on those transaction costs.

FR40 Becomes the Most Traded Index

Monthly ADV€, Select Indices



We had a look at the top five country indexes by value traded and found that the FR40 overtook the UK100 for the top slot for all three months in Q2. So far this has happened in only one previous month (in recent years), that being 2019, also during the dividend season.

Again this seems to have been driven by some top performers – Sanofi SA, LVMH SA and BNP SA all joined the super league of the top ten most traded names in Europe for the first time in Q2, with an average increase in daily value of nearly 50%. Four of the top ten names are now in the FR40 index.

Index Rebalances

Daily Value € Since 2016

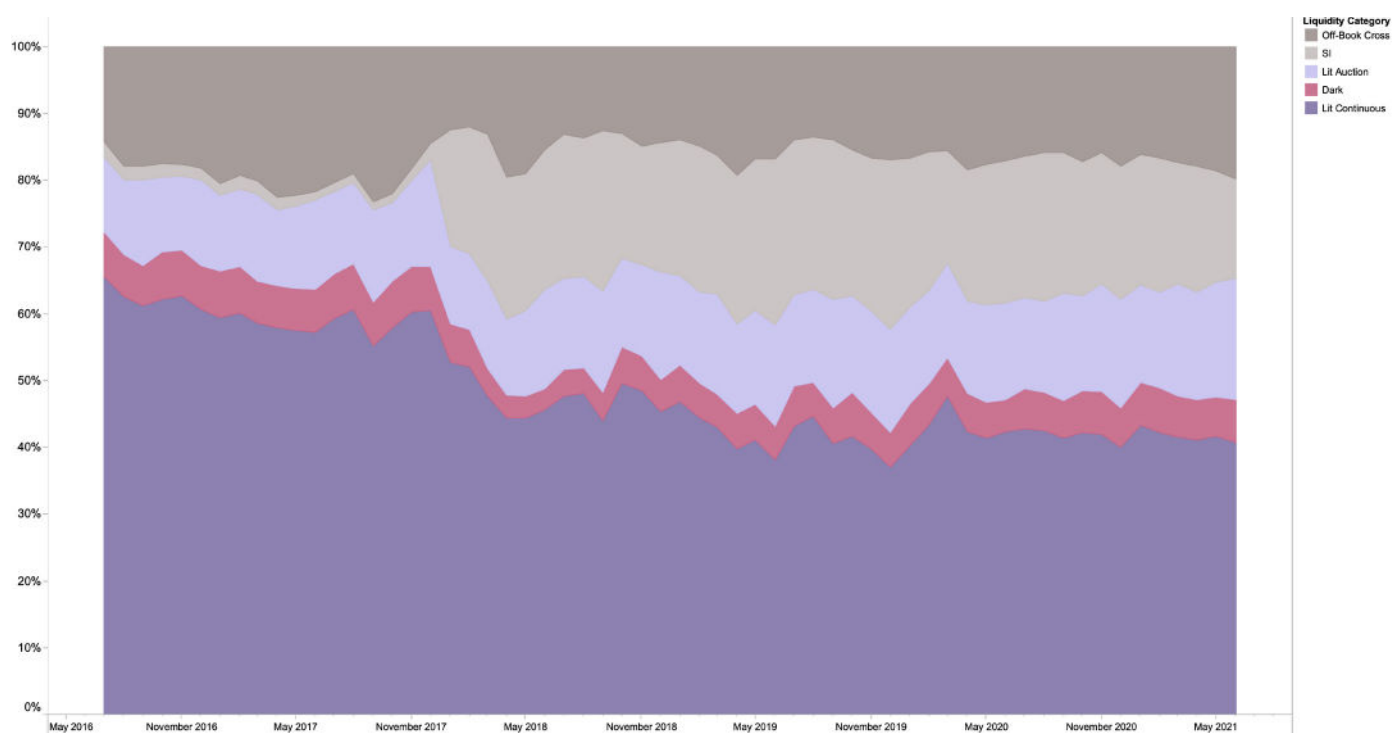


We like to watch the market's ECG as the steady beat of expiries and reshuffles play out against the adrenalin-filled days of volatility.

The March FTSE Russell rebalance drove the biggest Closing Auction (we think in history), at nearly 45B€ on the closing print, and the biggest day not driven by extreme volatility. Meanwhile the MSCI in June did not disappoint, just a whisker short of the magic 100B€ daily value mark (we've only seen 17 of those in three and a half years, and one so far this year).

Market Fragmentation - SI and Lit Orderbooks Squeezed by the Auctions

Long Term Market Fragmentation - All Indexes

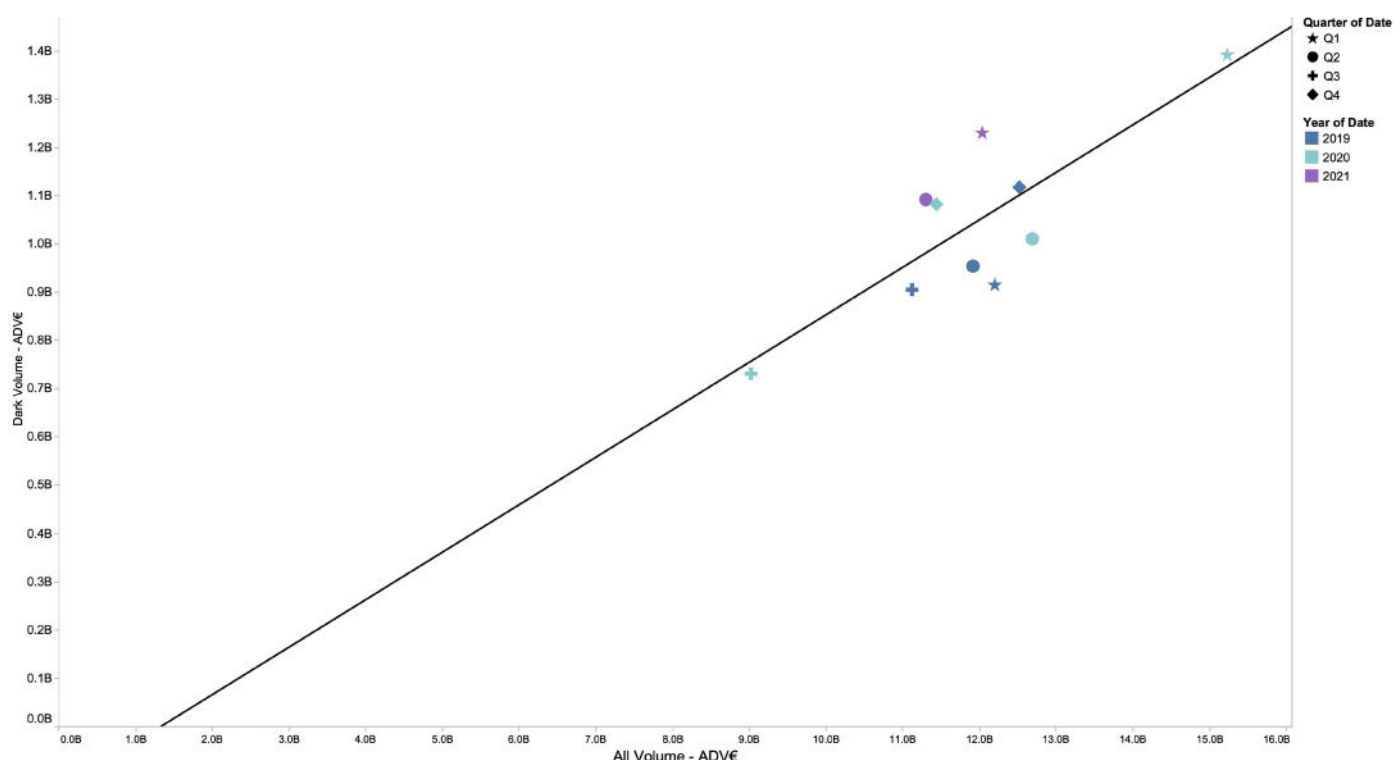


Auction value has reached peak share of market value, at 18.7% of overall ADV including off orderbook trading. As a share of the electronic orderbooks, this is 27%, also the highest it has reached so far, and coming from 18% back in Q1 2018. The seasonal impact of the dividend season in Q2, which sees greater off orderbook block trades can also be seen here.

As Dark orderbook trading has been steady at 9% - 10% since early 2019, the tug of war is between the Closing Auction and the Intraday Lit Continuous trading sessions. In mid cap names this is even more dramatic, for example the Closing Auction is on course to be bigger than intraday trading in the UK250 by mid-2022.

Dark Trading – Market Share in the UK is Increasing

Dark Trading - UK

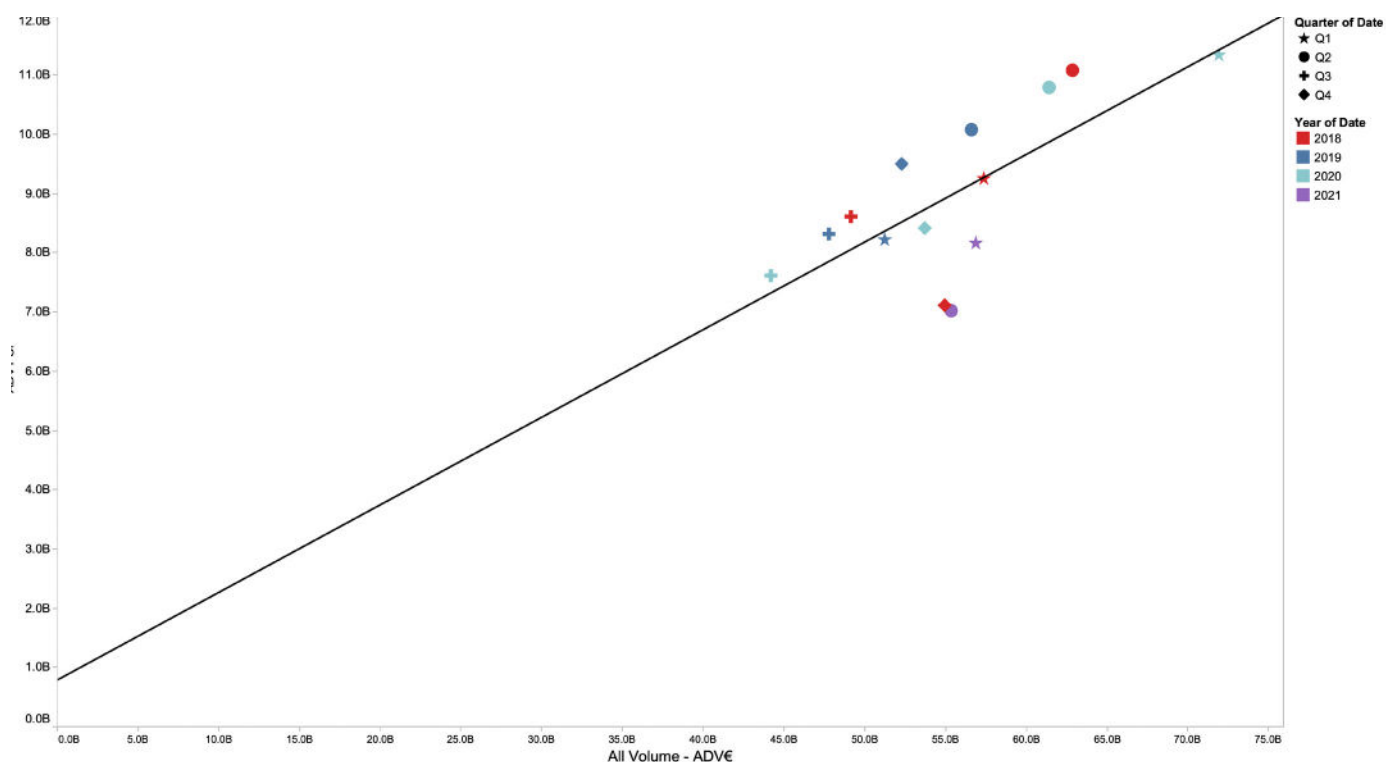


With the FCA and now the UK government both abandoning the DVC mechanism, we are waiting to see if there is a significant move towards an increase in Dark volumes for UK-based share trading.

Our chart shows that this seems to be happening. We compare the ADV traded in Dark pools to the overall ADV. Each quarter is represented by a shape and each year by a colour. The further the shapes are from the line, the more they are diverging from the long term pattern of Dark market share. Q2 2021 (purple circle) sees an increase in Dark trading, whereas Q2 normally sees a decrease (this is partly the seasonal effect of an increase in off orderbook trading during dividend season). Dark market share increased to 9.7% from 8% last year and above the DVC limit. The trend began in Q4 2020 (light blue diamond).

SI Trading – SI Market Share is Decreasing

Systematic Internalisation - Europe (incl. UK)

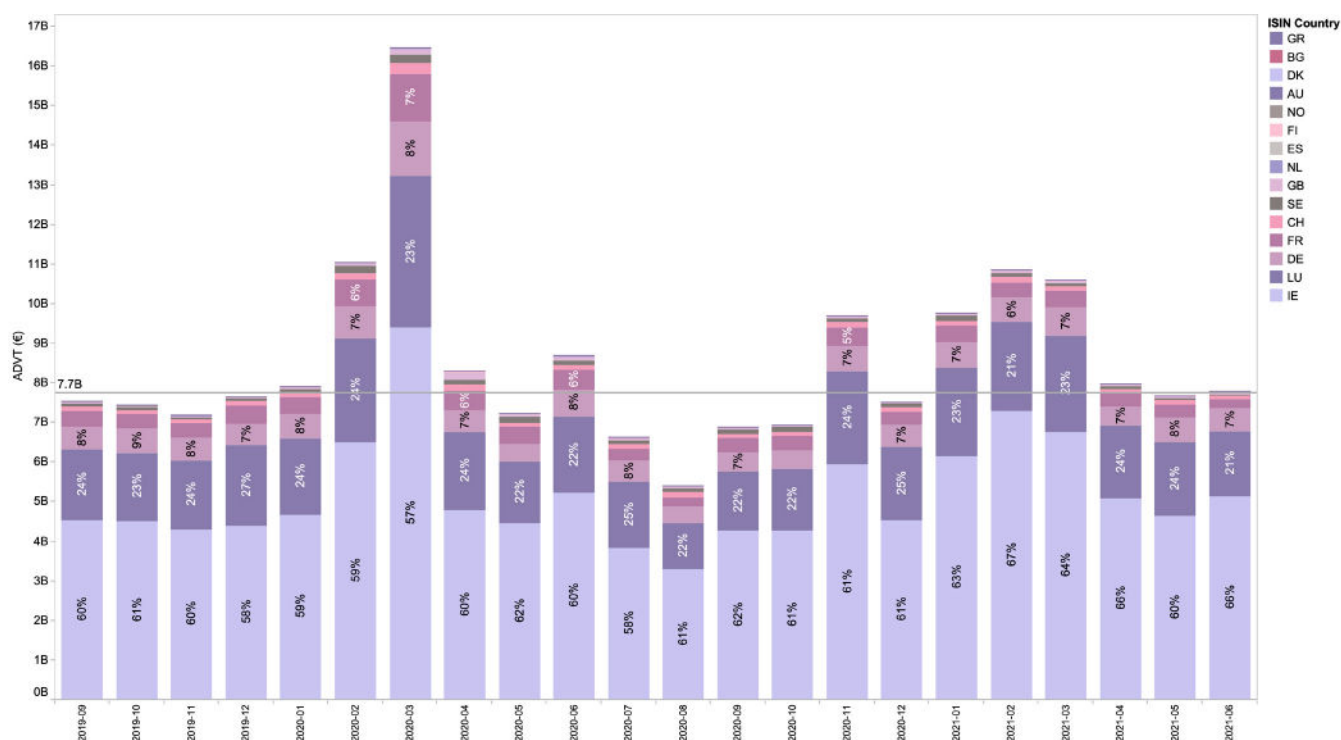


Another industry debate flows around the SI category and whether it should be restricted as a pool of liquidity.

By applying the same analysis as for Dark trading on the previous page, we can see that in fact SI trading reached its lowest level since the beginning of MiFID2, both in absolute and relative terms, at 12.6% of market share versus a long term average of 16%, with three of the last four quarters showing the downward trend.

ETF Volumes - The Survey Goes Cross-Asset

European ETF ADV€

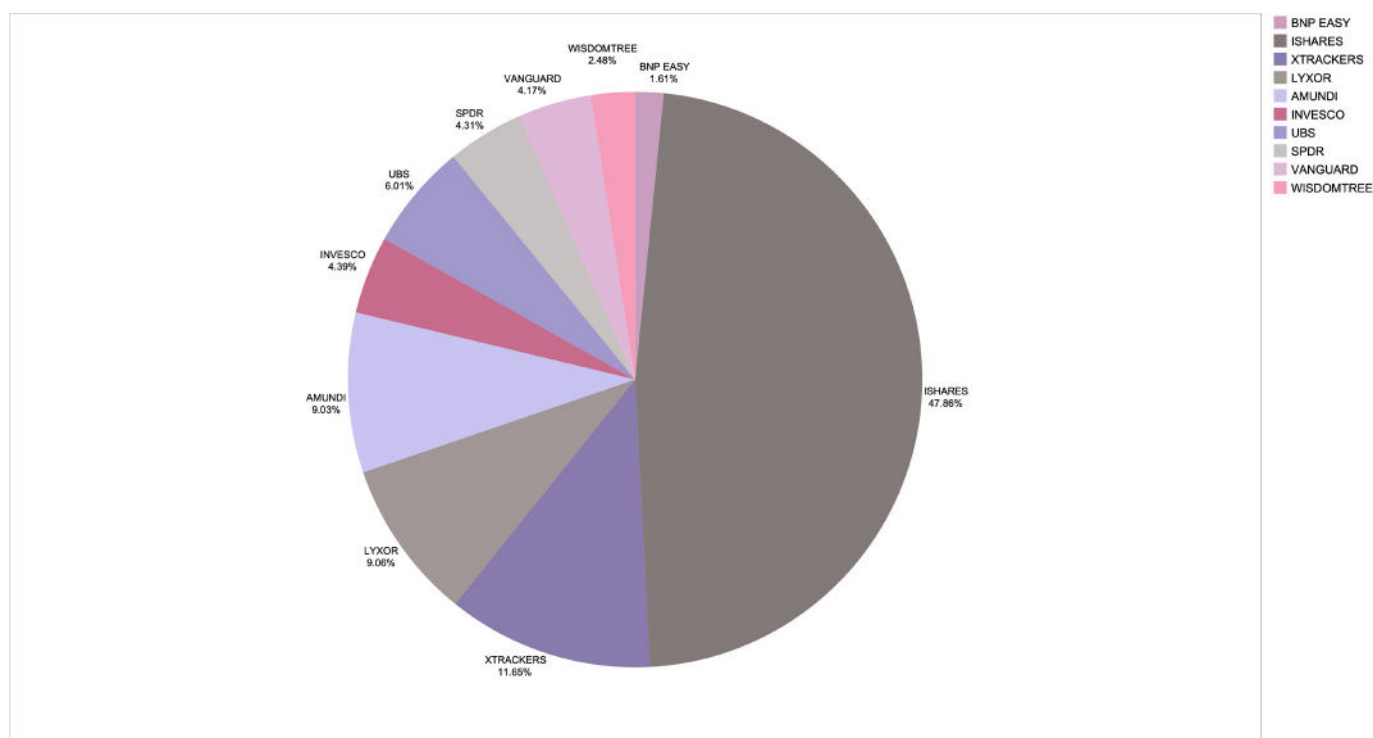


As AUM in ETFs also reaches new heights in 2021 of over 1.2T€, we decided to add ETF volumes and market share to the survey. We are looking at ETFs issued in Europe but on a multi-asset basis and those that are invested in non-European names. This is a treasure trove of information about investor flows into other asset classes (such as cryptocurrency) and regions, and as they are often dual listed between country primary exchanges, they also point to domestic investor activity. We encourage you to delve into our **ETF Liquidity Cockpit** offering.

Our chart shows how ETF value traded (cross-asset) has developed for both on orderbook and RFQ trading mechanisms by country over the last two years. ETF volumes enjoyed a burst of activity in Q1, at over 30% above the 18-month average prior to settling back to average levels

The Amundi and Lxyor Combination

Top 10 European ETF Issuer Share

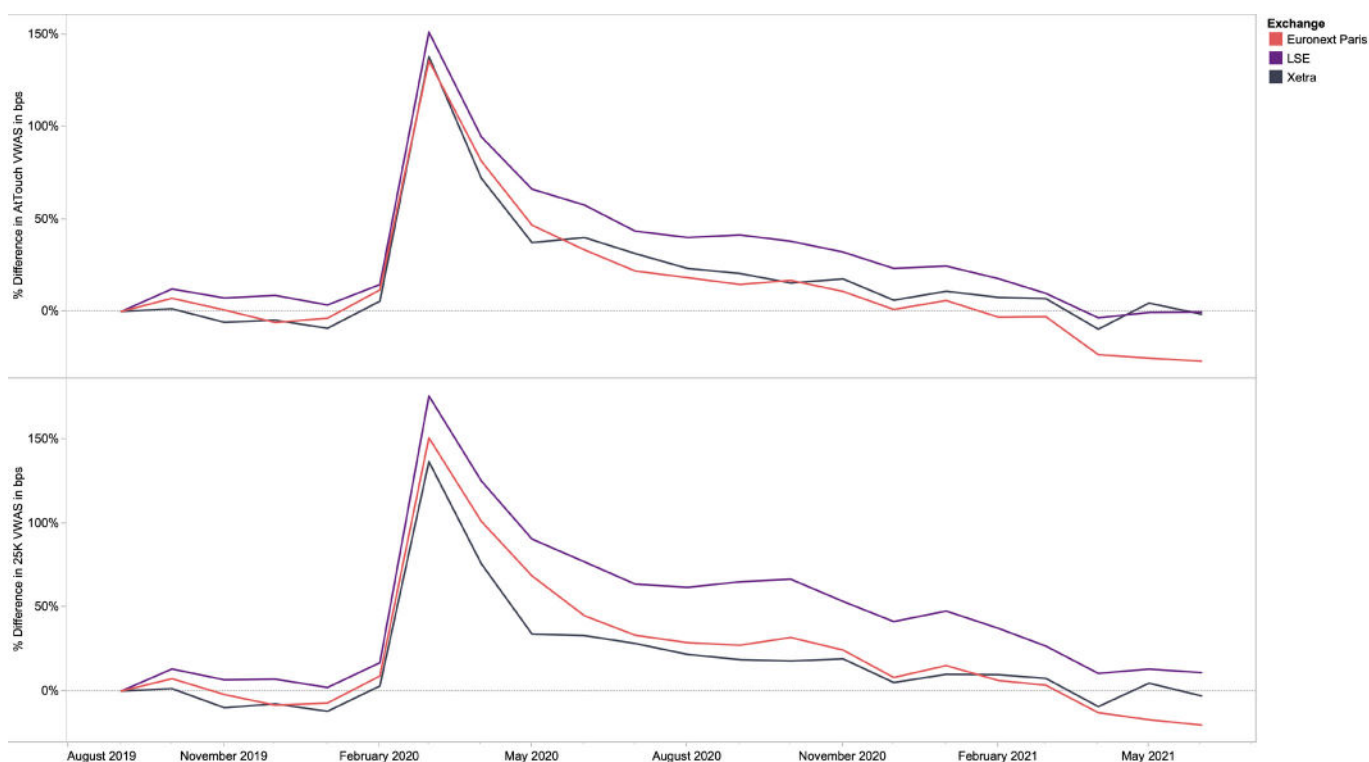


ETF market share of volumes between issuers will look a little different going forward as Amundi and Lxyor come together to create the 2nd largest issuer with around 18% of volume traded, with DWS Xtrackers moving to 3rd place with 11.6%.

In later reviews, we will look at the evolving market share between venues and activity in some of the bigger ETF listings.

Postscript: Market Quality

Change In Primary Spreads Since September 2019



We finish with a quick look at a key market quality metric - quoted spreads. In Q2, top of book spreads have finally returned to pre-pandemic levels (we are showing the primary market spreads for London, Paris and Frankfurt in the diagram), and even narrowed on Paris.

The same is true of the spreads at 25k€ depth, although London is lagging behind.

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Appendix: European Microstructure 101



About big xyt

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Our clients include major global investment banks, buy-side firms (asset managers, hedge funds, pensions, indexers), leading exchanges, trading venues, and regulatory bodies.

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big xyt has created a global ecosystem for tick data analytics covering more than **120 trading venues**, across **Equities, ETFs, FX, Futures and Options**. Our unique technology normalises trade conditions of venues allowing consistent aggregations of trading volumes, comprehensive analysis, and delivery of results in a flexible and customisable format.

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Best TCA Tool at A-Team's TradingTech Insight Awards 2021

Shortlisted in The TRADE FinTech of the Year Awards 2020

Outstanding TCA Provider at The TRADE Leaders in Trading 2019 Awards

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