

# Liquidity Landscape

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July 2020

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# Liquidity Landscape: Post Covid-19

## Global Liquidity

Despite lockdown measures lifting and governments making every attempt to re-start their respective economies, Top of Book Liquidity<sup>1</sup> has not yet returned to pre Covid levels bar Hong Kong All. Whereas US Top 500, Australia and Japan are almost back to pre Covid levels, the UK Top 100 and EU STOXX 600 remain significantly lower.

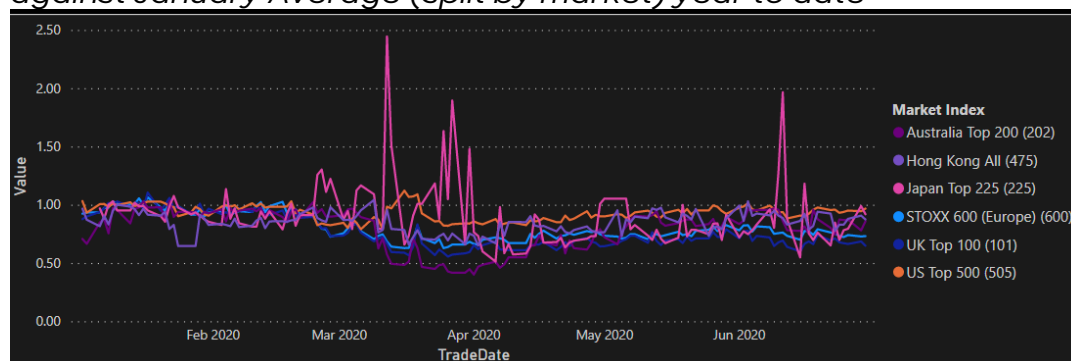
### Global Top of Book Liquidity

**Exhibit 1: Top of book Liquidity**

Index	Top of Book Liquidity Peak in March	Top of Book Liquidity Jan Average	Top of book Liquidity June Avg	% Change Jan average vs June average
US Top 500	7.5	0.99	0.95	-4%
Hong Kong All	1.6	0.87	0.89	+2.3%
Australia Top 200	2.6	0.91	0.87	-4.4%
Japan Top 225	2.2	0.95	0.88	-7.4%
UK Top 100	5.2	0.98	0.69	-30%
STOXX 600	4.2	0.98	0.77	-21%

Source: Liquidnet Investment Analytics (formerly OTAS)

**Exhibit 2: Top of Book Liquidity represented by the median number of shares proxied against January Average (split by market) year to date**

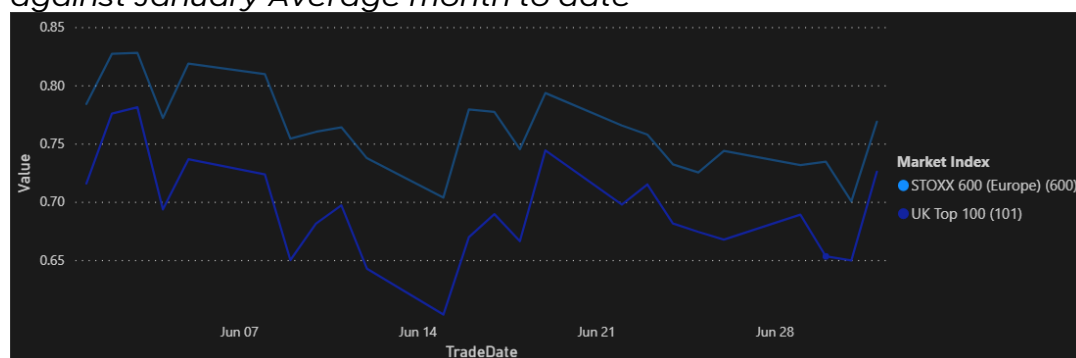


Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

Liquidity levels have remained relatively stable in Japan and Hong Kong due to the proportion of lit market activity. Within this high proportion of lit activity there are local differences such as the lack of HFT in Hong Kong versus the comparative higher proportion of HFT in Australia which impacted liquidity provision (see exhibit 3).

<sup>1</sup> As represented by the median number of shares at the top of the book proxied against the January average

**Exhibit 3: Top of Book Liquidity represented by the median number of shares proxied against January Average month to date**



Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

One potential reason for the low liquidity levels in the UK/ Europe compared to the US and APAC may be due to the high proportion of retail activity which is taking place in these jurisdictions. In APAC, brokerages, typically seen as a barometer for market sentiment, led gains Monday with a Bloomberg gauge<sup>2</sup> for Hong Kong-listed securities firms surging the most in nearly four years. A dozen mainland-listed brokers surged by the 10% daily limit. The CSI 300 Index has also added 14% in five days, the most since December that year. Shares of brokerages are surging as daily turnover continues to exceed 1 trillion yuan, indicating increasing participation from retail investors<sup>3</sup>.

In the US, the increase in retail trading has helped trigger a surge in options trading with the total value of contracts now at \$5.2tn, roughly double the level seen five years ago – around 20% of the overall stock market value of the S&P 500 benchmark of US blue-chip companies<sup>4</sup>. In addition, the majority of US ETFs are trading heavily on exchange, in comparison to EMEA where a large proportion is still done via RFQ (request for Quote) and via other OTC mechanisms.

**Exhibit 4: US equity option volumes have climbed sharply in recent years**



Online brokerages have become particularly attractive during lockdown, attracting widespread regulatory concern as to the impact on retail investors from ASIC to the SEC. ASIC<sup>5</sup> recently revealed concerns regarding end investors increased exposure to risk as holding periods decline and an increase in short term trading strategies unsuccessfully attempting to time price trends. In a recent address<sup>6</sup>, the SEC stressed the need to combat retail fraud by empowering

<sup>2</sup> <https://www.bloomberg.com/amp/news/articles/2020-07-06/china-state-media-stoke-world-beating-rally-in-nation-s-shares>

<sup>3</sup> <https://www.bloomberg.com/amp/news/articles/2020-07-06/china-state-media-stoke-world-beating-rally-in-nation-s-shares>

<sup>4</sup> <https://www.ft.com/content/45d0a047-360f-4abf-86ee-108f436015a1>

<sup>5</sup> <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-102mr-retail-investors-at-risk-in-volatile-markets/>

<sup>6</sup> [https://www.sec.gov/news/speech/clayton-redfearn-modernizing-us-equity-market-structure-2020-06-22#\\_ftn5](https://www.sec.gov/news/speech/clayton-redfearn-modernizing-us-equity-market-structure-2020-06-22#_ftn5)

investors and providing them with the information and tools they need to identify and avoid frauds. This was reinforced by a statement from the SEC Chairman regarding the importance for public capital markets to have access to clear, high-quality, timely information regarding the financial and operating status of companies.

## Global Volumes

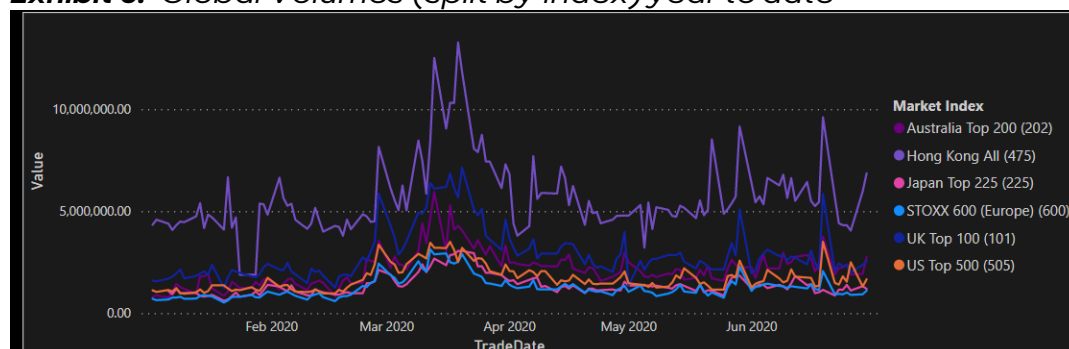
Global volumes are up to 84% higher than January averages, however they remain around 60% less than the peak in March.

**Exhibit 5: Global volumes**

	January average (in million shares)	Peak in March (in million shares)	June Average (In million shares)	% change January average vs June average	% change Peak in March vs June average
<b>Australia</b>	1.3	5.9	2.4	+84%	-59%
<b>Hong Kong</b>	4.4	13.3	5.9	+34%	-56%
<b>Japan Top 225</b>	1.0	3.1	1.3	+40%	-58%
<b>STOXX 600</b>	0.8	3.2	1.3	+63%	-59%
<b>UK Top 100</b>	1.9	7.1	2.7	+42%	-62%
<b>US Top 500</b>	1.2	3.6	1.8	+50%	-50%

Source: Liquidnet Investment Analytics (formerly OTAS)

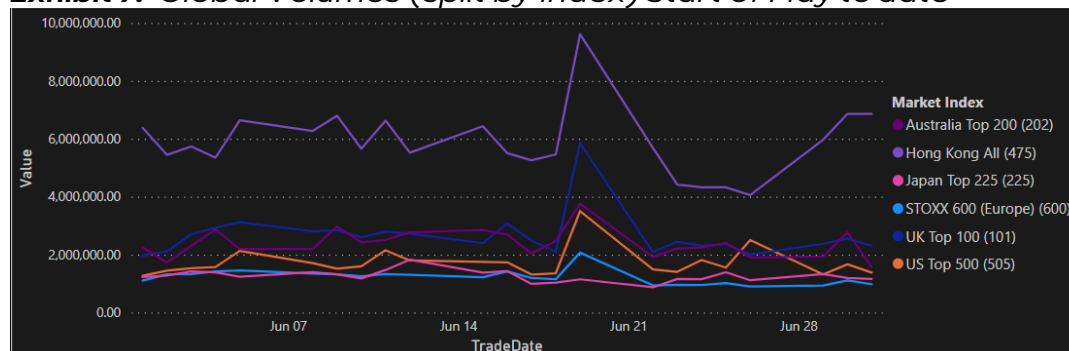
**Exhibit 6: Global Volumes (split by Index) year to date**



Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

Overall volumes have been consistent for the last few months with the occasional spike due to rebalances. The earlier spikes in May are most likely due to macro drivers such as rising tensions between the US and China and riots re starting in Hong Kong which had a knock-on impact on volumes resulting in increased volatility.

**Exhibit 7: Global Volumes (split by Index) Start of May to date**



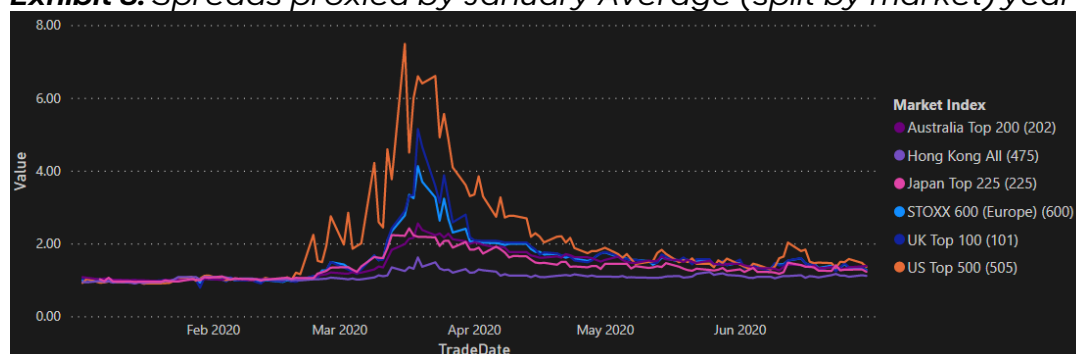
Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

Over the last month volumes have stayed relatively steady with the spike in most markets on the 19<sup>th</sup> of June due to Quadruple witching, due to a large proportion of intraday auctions and some major index rebalances at the close resulting in increased closing auction volumes.

## Global Spreads

In line with Liquidity patterns, spreads<sup>7</sup> are still wider than pre Covid levels, despite being considerably tighter than they were back in March. Australia Top 200 spreads remain widest at 40% wider than the January average. Following Australia, the next widest is the US Top 500 and the STOXX 600, 37% and 29% wider respectively, followed by the UK Top 100 at 26%. In Hong Kong and Japan spreads remain closer to January averages, having never reached the peaks that the other markets did in March. Japan 225 is 24% wider and Hong Kong All 13% wider.

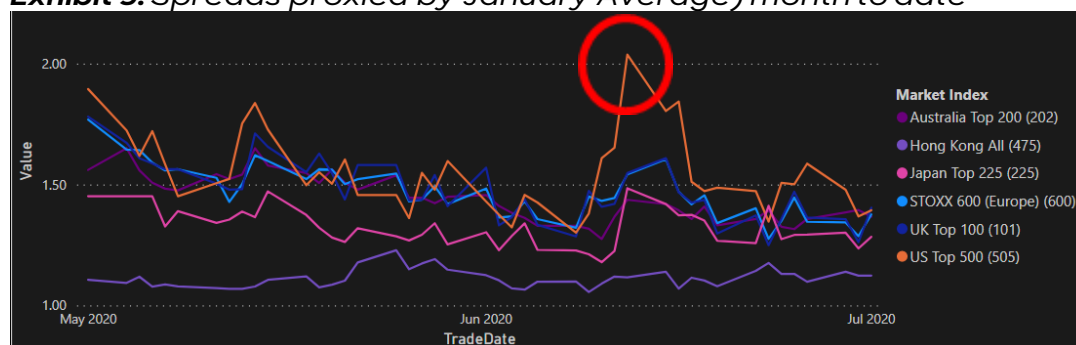
**Exhibit 8: Spreads proxied by January Average (split by market) year to date**



Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

Although spreads have tightened since the peaks in March, exhibit 5 shows the sudden widening for the US top 500 on the 12<sup>th</sup> of June to 100% higher than the January average. This is a response to price action and the steep fall in the index which took place on the 11<sup>th</sup> of June, with the increased uncertainty resulting in the widening of spreads.

**Exhibit 9: Spreads proxied by January Average) month to date**



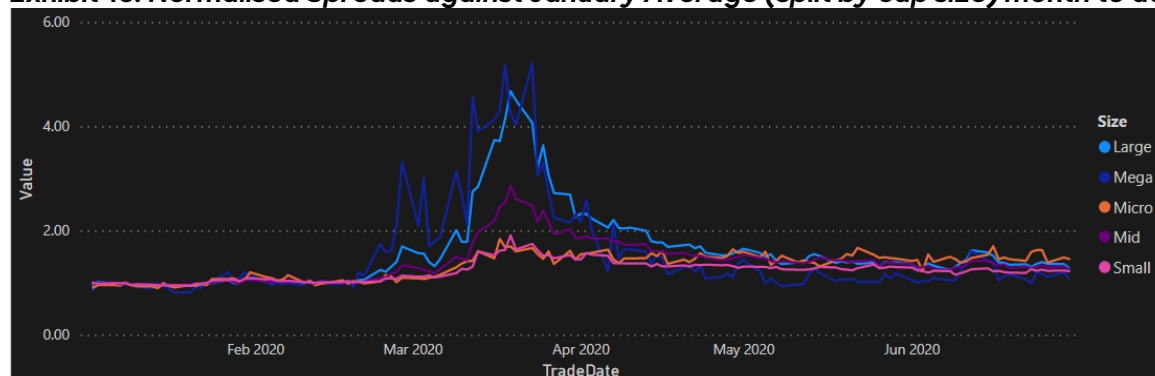
Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

<sup>7</sup> normalised spreads to a factor of 1 (each stock is divided by the January average spread where 1 becomes a reference for what happened pre-covid)

## Spreads Across Market Cap

A similar picture is emerging across Market Caps with all caps' spreads still considerably wider than they were back in January.

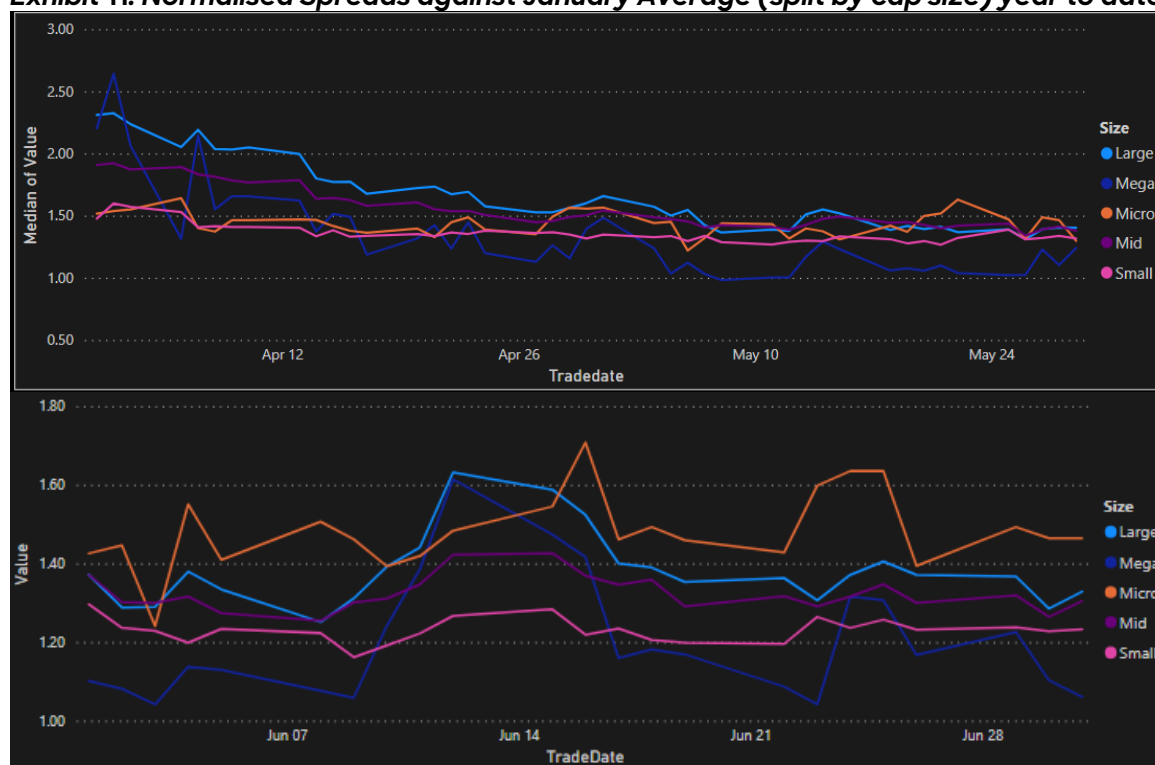
**Exhibit 10: Normalised Spreads against January Average (split by cap size) month to date**



Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

Micro Caps currently have the widest spreads at 47% wider than January averages. After widening over the previous month, mega caps are just 10% wider than January averages. In comparison to back in April where spreads were steadily declining week on week, there has been a lot more movement with spreads widening up to 71% more than the January average.

**Exhibit 11: Normalised Spreads against January Average (split by cap size) year to date**



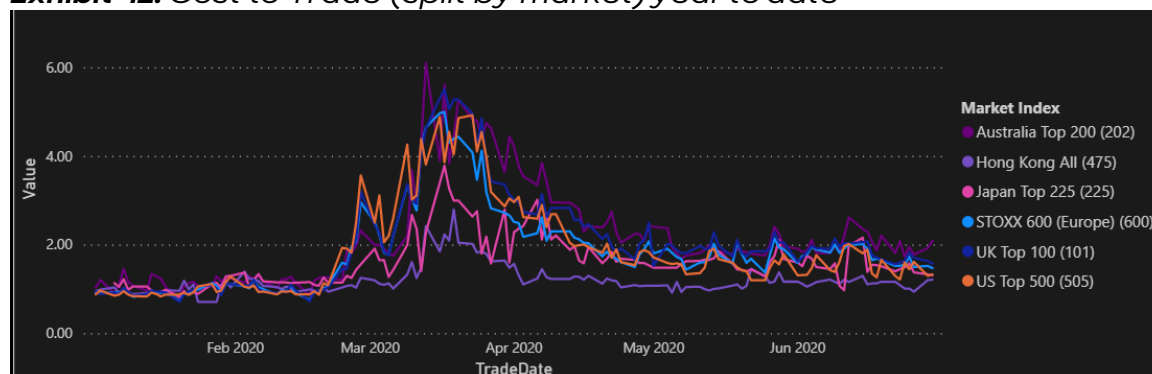
Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>



## Market Impact

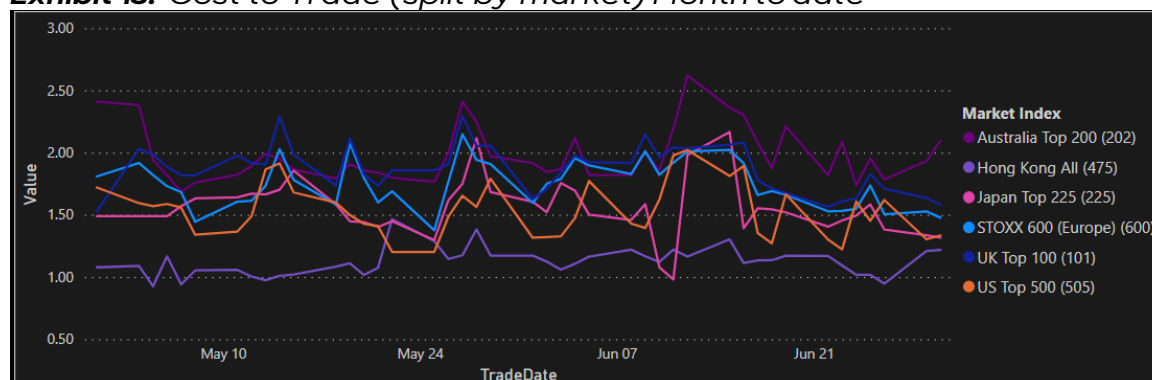
As a result of increasing volumes and spreads, the cost to trade <sup>8</sup> is still considerably higher than it was pre Covid. The Australia top 200 is the most expensive market to trade, and has been for some time, at 110% more expensive versus the January average – considerably higher than any of the other markets. The UK top 100 is the next most expensive to trade at 59% higher than the January average, followed by the Stoxx 600 and US top 500 at 48% and 34% respectively. Although Hong Kong remains the outlier with cost of trading just 22% higher than the January average, there has been a considerable increase in the cost seeing as it was around 2% in the previous month.

**Exhibit 12: Cost to Trade (split by market) year to date**



Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

**Exhibit 13: Cost to Trade (split by market) Month to date**



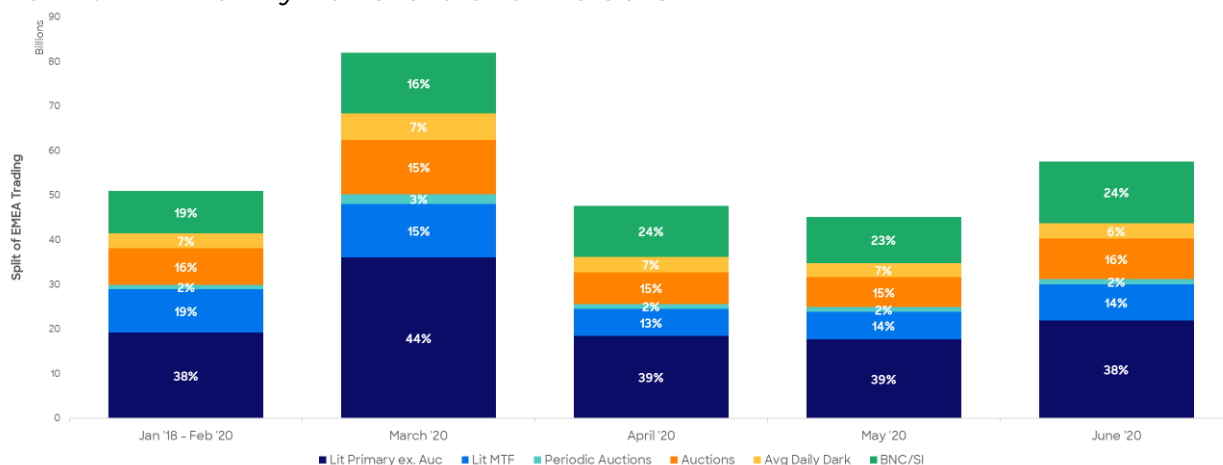
Source: Liquidnet Investment Analytics (formerly OTAS) – Date range from January 2<sup>nd</sup> to June 30<sup>th</sup>

<sup>8</sup> Calculated by liquidity, volume and spread

## Breakdown of European Liquidity

Overall market volumes were significantly higher in June than in April and May at €57.6B, but still lower than the €81B average recorded in March. In addition, volumes are still higher than the monthly averages pre-Covid in December 2019 and January this year.

**Exhibit 14: EMEA Monthly Market Share 2017 to date**



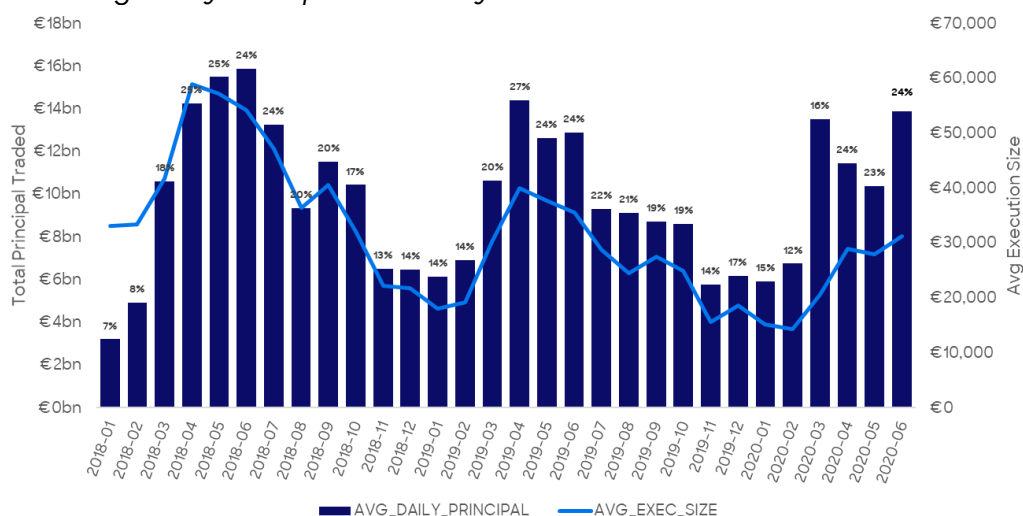
Source: Bloomberg

Market share is also stable - Lit continuous is 38%; Auctions 16%; with Lit MTF activity declining from an average of 17% in 2019 to 14%. Systematic Internaliser activity appears to be the beneficiary, now at 24% of overall market share volumes from 19% pre-Covid. Dark trading and Periodic Auctions remain static at approximately 6% and 2% of overall market volumes respectively.

## Systematic Internalisers

June's SI Average Daily Principal Traded is now higher than March at €13.5B and more aligned with the level of activity seen in April 2019 (see Exhibit 15). Average execution size is also increasing from €20k in March to €31K on average in June (see Exhibit 15).

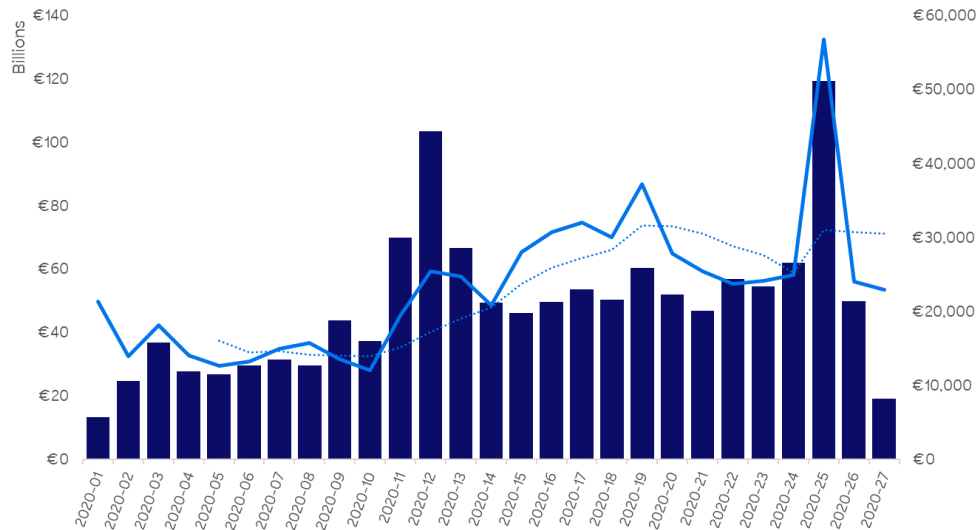
**Exhibit 15: SI Average Daily Principal Traded by Month**



Source: Bloomberg



**Exhibit 16: SI Volumes by Week**



Source: Bloomberg

## What Next for Europe?

Watch out for the proposed Covid-19 Special Regulatory Vehicle now expected on July 21<sup>st</sup>, which will put a greater focus on immediate resolution of a small number of topics namely Investor Protection, Suitability of Product and Costs & Charges. **The remainder of the MiFID II Review will now be pushed well into 2021.**

# Regulatory Change across the Globe in the last week

The regulatory links provided do not constitute an exhaustive list of all applicable rules and they do not and are not intended to constitute legal advice. They are provided on a non-reliance basis and all recipients should seek their own independent legal advice in relation to the covered matters.

## Europe

### **ESMA, European Commission and other European Institutions**

[ESMA publishes 2019 annual report and updates 2020 annual work programme](#)

[ESMA publishes example of an annual financial report in ESEF format](#)

[ESMA responds to European Commission consultation on the digital finance strategy](#)

### **UK**

[Financial Services Update: Written statement](#)

[A financial system to support the recovery](#)

[Firms must do more to ensure that they are always giving appropriate equity release advice,](#)

[FCA review finds](#)

[FCA to make mini-bond marketing ban permanent](#)

[Firms to prepare for phased move to FCA's new data collection platform RegData](#)

[FCA statement on planned amendments to the Benchmarks Regulation](#)

[FCA seeks industry views on a new prudential regime for UK investment firms](#)

[FCA announces pensions value for money consultation](#)

[The Climate Financial Risk Forum publishes its guide to help the financial industry address climate-related financial risks](#)

[Extension of the Senior Managers & Certification Regime \(SM&CR\) implementation periods for solo-regulated firms](#)

[Approved Persons Regime \(APR\) and coronavirus: our expectations](#)

[Building a financial regulatory system suitable for the UK in the new era](#)

### **France**

[Money Laundering and Terrorist Financing: threats and risks in times of health crisis](#)

[Opportunities and risks in the financial index markets](#)

[The HCSF publishes an analysis of the French financial system's interconnections, simulating the propagation of shocks](#)

## APAC

### **Australia**

[Advertising financial products and services: obligations and ASIC's expectations](#)

[Investment funds told to correct advertising and disclosure](#)

[ASIC releases guidance on the administration of its product intervention power](#)

[ASIC reports on decisions to cut red tape – October 2019 to March 2020](#)

[ASIC publishes new regulatory guidance for mortgage brokers](#)

### **Hong Kong**

[SFC publishes Annual Report 2019-20](#)

## Japan

[Overview of financial results of major insurance companies as of March 31, 2020 \(June 23, 2020\)](#)  
[FSA updated Information on COVID-19 \(Novel Coronavirus\) \(June 23, 2020\)](#)

[Bank of Japan Review: Developments in Overseas Credit Investment and Lending by Japanese Financial Institutions \(June 26, 2020\)](#)

[At the FSB workshop on Policy Responses to COVID-19 - Introductory remarks by HIMINO Ryoza, Vice Minister for International Affairs \(July 3, 2020\)](#)

## Singapore

[Safe Transition to Phase Two of the Re-opening for the Financial Sector](#)

["Shanghai and Singapore: Financial Centre Partnership" - Panel Remarks by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Lujiazui Forum 2020 on 18 June 2020 \[via Video Conference from Singapore\]](#)

[Response to "Are Banks Observing Due Diligence Before Selling Elderly Customers High-Risk Products"](#)

["Covid-19: We Need More Connectivity, Not Less" - Keynote Speech by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Caixin Summer Summit 2020 on 22 June 2020](#)

[MAS Consults on Environmental Risk Management Guidelines for Financial Institutions](#)

## North America

### US

[Financial Regulators Modify Volcker Rule](#): The amendments to the Volcker rules will make it possible for banking entities to extend credit and provide other traditional banking services using a fund structure, facilitate venture capital activity, remove barriers to banking entity investments in rural and low-income communities, enable banking entities to provide traditional banking services to funds, clarify the parameters pursuant to which banking entities can invest alongside the funds they organize, and limit the extraterritorial reach of the rule.  
The rule will come into force on October 1.

Other regulatory updates include:

[SEC Extends Relief for Virtual Meetings of Fund Boards](#)

[Confirmation of June 30 Compliance Date for Regulation Best Interest and Form CRS](#)

[Statement on the Continued Importance of High-Quality Financial Reporting for Investors in Light of COVID-19](#)

[An Update on the Commission's Targeted Regulatory Relief to Assist Market Participants Affected by COVID-19 and Ensure the Orderly Function of our Markets](#)

[Statement on the Department of Labor's Investment Advice Proposal](#)

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Rebecca is considered to be one of Europe's leading industry voices on market structure, regulatory reform, and financial services technology. She has authored a plethora of qualitative research reports and commentary covering the impact of market regulation on all asset classes, changing market structure and developments in dark pools, HFT and surveillance. She joined Liquidnet in July 2016 to use her 20 years' experience to collaborate and deliver research and insights for both the European equities and fixed income markets. Rebecca is also Co-Chair of the FIX Trading Community's EMEA Regulatory Subcommittee, dedicated to addressing real business and regulatory issues impacting multi-asset trading in global markets. She has held prior roles at TABB Group, Incisus Partners, the British Embassy in Bahrain, Credit Suisse, Goldman Sachs International, and Bankers Trust International.



**Joe Fields**

**Execution Consulting, EMEA**

Joe has almost ten years' experience working in electronic trading in both London and Dublin. Before joining Liquidnet Joe worked at ITG in varying different roles, most recently sitting on the Algorithmic trading desk, providing insights on algorithmic and SOR trading strategies.



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Charlotte joined Liquidnet in May 2017 to work with Rebecca Healey on EMEA market structure and deliver research and insights about the European financial markets. Charlotte joined from Reed Exhibitions where she was a mergers and acquisitions analyst. Prior to Reed Exhibitions, Charlotte held a role at The Boston Company Asset Management in Boston.



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