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FX Week

Lack of liquidity spurs innovation

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Source: [FX Week](#) | 13 Jul 2009

NEW YORK - The innovative instincts of the foreign exchange community have shone over the past nine months, according to a panel discussing trading in illiquid markets at the FX Week USA congress in New York last week (July 7).

Josh Levy, managing director at Tactical Asset Management, said that, in response to the market environment, trading volumes at his firm had "exploded" while trade sizes had shrunk. "The algorithmic trend has accelerated in the past nine months and we have traded thousands of trades on some days," Levy said.

The panel also mentioned efforts by market participants to use more internal liquidity, and Phil Weisberg, chief executive at FXall, said he has seen more firms exchanging risk in mid-market.

Weisberg expects this enterprising spirit to continue as the industry assesses the reams of data collected since last September. "There is going to be tremendous innovation around how to extend credit to people, which will include innovation around clearing solutions," he said.

Issues were raised by Levy about the cost of trading for buy-side participants during the crisis. However, fellow panellist Yaacov Heidingsfeld, chief operating officer at TraderTools, said price adjustment was necessary because a year ago customers were "spoilt" by the prices on offer. It is important for credit to be more realistically valued, he said.

The panel consensus was that liquidity is returning to the market, although Levy urged the sell side to increase its efforts on this front. "They were too quick to take their foot off the gas last year and now they've been a little too slow to put the foot back on," he commented. "If they want to repeat the profitability they had in 2008 while there is not quite as much volatility, they're going to have to step up the breadth and depth of liquidity."

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