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AMF publishes a study on behaviour of high-frequency traders (HFTs)

The Autorité des Marchés Financiers (AMF) has published a detailed analysis of the activity of market participants engaged in high-frequency trading (HFT) on CAC 40 stocks, with focus on their presence in the order book, how they provide and consume liquidity and how their behaviour changes during periods of intense stress.

Over the last few years, the equity markets underwent periods of high volatility such as at the beginning of 2016, owing to fears on the Chinese economy, and in June of the same year, amid a climate of uncertainty brought about by the Brexit referendum. Such market conditions can affect liquidity: as overall amounts traded rise, so does the level of risk facing market-makers, forcing a proportionate reduction in their presence in the order book. In order to analyse this trend, the AMF studied the activity of the leading operators engaged in HFT, who represent a large proportion of the market-making business on liquid Euronext Paris stocks.

The study was limited to Euronext Paris CAC 40 stocks and therefore only covers this proportion of HFTs' behaviour. The AMF conducted detailed analysis of the HFT activity over a nine-month period from November 2015 to July 2016, during which there were considerable swings in market volatility. The analysis focused firstly on the orders placed by HFTs and the liquidity provided in the order book, then on their transactions and how much liquidity they effectively provide and consume.

The main findings were as follows:

- High-frequency traders are important contributors to liquidity during normal market conditions. They are present at the best bid or best offer prices more than 90% of the time and they represent on average 80% of the market depth in the order book at the three best price limits. On an intraday basis, they enter the order book gradually and help to reduce the bid ask spread (the difference between the best buy and sale prices) at the beginning of the day, however they clearly reduce their presence in the order book ahead of announcements that are likely to affect share prices.
- On average, HFTs consume more liquidity than they provide, particularly during periods of high volatility.
- Overall market stress has a negative impact on liquidity and always results in shallower market depth.
- Periods of intense stress prompt an increased presence of HFTs. In particular, their market share and liquidity consumption increase sharply following announcements that impact the stock market.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.


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