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The AMF publishes a study on the "aggressive" orders of market participants

Liquidity consumption, price impact, trader typology, strategies employed: the AMF proposes an in-depth analysis of the "aggressive" activity of the various market participants on CAC 40 shares traded on Euronext Paris, highlighting in particular the specific features of high-frequency traders.

Determined to analyse the trends at work in financial markets, in January 2017 the AMF published an initial study describing the activity of high-frequency traders on CAC 40 stocks. The study showed that, despite their significant presence in the order book, these players consume on average more liquidity than they provide, especially in periods of high volatility. Most of their transactions are the result of orders giving rise to a transaction immediately by accepting the price offered by a counterparty in the order book, and thereby reduce the quantity of shares instantly available in the order book. The study published today is devoted specifically to these "aggressive" orders, as opposed to "passive" orders which wait in the order book to find a counterparty.

First, the impact of this type of order on price formation is analysed, for all the market participants, according to the liquidity consumption involved. A distinction is thus made between three categories:

- orders consuming less than the quantity of shares offered or bid for at the best price;
- orders consuming exactly the quantity offered or bid for at the best price;

— orders consuming more than the quantity of shares present at that price.

Orders in the last category are rare (4% of aggressive orders) but, although they have the greatest effect on the price, this impact is not lasting over time. Orders consuming only part of the shares offered or bid for at the best price are the most frequent (50%), closely followed by orders consuming exactly that quantity (46% of aggressive orders). The latter are responsible for the most lasting great effect on the price. This effect persists after 17 minutes.

The study then estimates the informational advantage of high-frequency players by comparison with other market participants: analysis of the profitability of "aggressive" orders according to the type of market participants shows a clear advantage for high-frequency traders. Finally, the observation of price patterns before and after the "aggressive" orders shows that some market members sometimes employ several different strategies at the same time via different member codes.

Read more

- Analysis of the aggressive behaviour of market participants: do HFTs trade opportunely?
- Study of the behaviour of high-frequency traders on Euronext Paris

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