

Navigation the New World of FX Data

INTRODUCTION

The FX market has always been fragmented and opaque. Unlike stocks and futures, currencies do not trade on a centralized exchange; they trade via millions of over-the-counter and interbank transactions.

As a result, comprehensive data for this market has always been difficult to obtain. Even the world's largest banks see only a fraction of global FX flows. This places the typical forex trader at a significant disadvantage relative to their peers in other asset classes. Until now.

In 2002, a consortium of 39 of the largest banks in the world came together to create CLS Group, a multi-currency settlements provider. Today CLS settles over 50% of global daily FX transactions, giving it unparalleled visibility into institutional foreign exchange activity. Now, in partnership with Quandl, CLS started packaging and selling their FX transaction data to the market.

In this short guide, we introduce the new FX transaction data products available on the Quandl platform to help forex traders find value from this data.

A HISTORY OF RISK IN THE FX MARKET

The cautionary tale of Bankhaus Herstatt has long cast a shadow upon currency markets. Back in 1974, this small German bank failed. Bank failures are of course commonplace, but what set Herstatt apart was that it ceased operations in the middle of the business day. Any money it owed on foreign-exchange deals was left unpaid and counterparties who thought they were fully hedged suddenly found themselves exposed. Banks around the world rushed to freeze all outgoing payments and the FX market ground to a halt.

“Herstatt risk”, as it came to be known, became ever more pronounced over the years as the FX markets became larger, more liquid, and more continuous. With currencies trading around the clock globally, banks were highly aware of the possibility that different settlement deadlines in different time zones could leave them high and dry if any counterparty defaulted with only one leg of a transaction completed. A solution was needed.

ABOUT CLS GROUP

In 2002, a group of 39 major global financial institutions created CLS Group to mitigate Herstatt risk. Today CLS is the world's leading provider of FX settlement services, providing a global multilateral netting solution that reduces client funding requirements while also decreasing settlement risk.

CLS BY THE NUMBERS¹

\$1.5 Trillion

Daily Volume

50%

Global FX Activity

25,000

Firms Settled

33

Major Currency Pairs

500,000

FX Trades Per Day

Hourly

Data Availability

Designated as a “systemically important financial market utility”, CLS Group is trusted by over 60 settlement members, including many of the world's most important financial institutions, and over 25,000 third-party clients, including many of the world's leading funds, banks, asset managers, and corporations. Today CLS processes an average of 500,000 FX trades every day, totaling over \$1.5 trillion in transaction volume.

¹<https://www.cls-group.com/about-us/our-history/>

CLS AND QUANDL PARTNER TO DELIVER FX DATA

Since its establishment, CLS has created the largest single source of executed FX trade data available to the market. This data is now being distributed via the Quandl data platform. Says Tammer Kamel, CEO of Quandl: “The completeness, accuracy and timeliness of these datasets are unparalleled in the history of FX market data and will radically change the way forex traders, risk managers and treasurers operate.”

ABOUT QUANDL

Quandl is a provider of innovative data products to financial institutions. The company sources, evaluates and productizes untapped or underutilized data assets, transforming them into quantified, actionable intelligence for a select institutional audience. With a customer base that includes the world's top hedge funds, asset managers and investment banks, Quandl delivers financial, economic and alternative data to over 400,000 investment professionals worldwide.

The first set of FX transaction data products available via Quandl includes FX volume, flow price and forecast data. These products are described in the following pages.

1 FX VOLUME DATA

Accurate, comprehensive, and timely volume data has long been taken for granted in other asset classes. But FX markets have never been privy to this information until now. The new FX Volume dataset from Quandl aggregates transacted FX volume data at hourly, daily, and monthly granularities, for 18 major currencies and 33 currency pairs. The hourly data is provided in both end-of-day and real-time variants.

TRADING WITH VOLUME DATA

A common market aphorism is that “volume confirms price”. Price movements on high volume are likely to continue, while price movements on low volume are likely to reverse. But until recently the lack of comprehensive and accurate volume data made it impossible to empirically verify or exploit this pattern in the FX market.

Research recently shared by Quandl confirms that a simple trading strategy using the FX Volume dataset delivers strong out-of-sample returns that are stable under a wide range of robustness and significance tests. Returns are uncorrelated to known FX factors such as carry, momentum, and value; they are also uncorrelated to published FX hedge fund performance.

The study suggests that the new FX Volume dataset is a genuinely new source of alpha for currency traders. Over time, we expect this dataset to become “table stakes” for FX market professionals.

2 FX FLOW DATA

Knowing who is trading what is critical to understanding any market. The new FX Flow dataset from Quandl aggregates anonymized hourly FX flows by type of market participant and side of trade taken, for 33 currency pairs and six participant categories (bank, fund, non-bank financial, non-financial corporation, buy-side, sell-side). This information is available both real-time and at end of day.

THE IMPORTANCE OF “INFORMED” TRADERS

Academic research distinguishes between “informed” traders (hedge funds, banks, and asset managers taking a position on the direction of future price movements) and “uninformed traders” (financial firms and corporations making FX trades to hedge currency exposure or for liquidity purposes). Activity by informed traders is typically more predictive of subsequent sustained price movements than activity by uninformed traders.

The lack of transparency in the forex market means that it has historically been difficult to gauge the relative predominance of informed and uninformed traders in any given currency price movement. The new FX Flow dataset from Quandl changes that by revealing market participation in close to real time, giving traders valuable insights on underlying market dynamics.

As with the FX Volume dataset, we expect the FX Flow dataset to become “table stakes” for FX market professionals over time.

3 FX PRICE DATA

If you have more accurate volume data, it follows that you can calculate more accurate derived metrics such as VWAP. The new FX Price dataset from Quandl calculates VWAP and TWAP at five-minute intervals, using executed trade information for accuracy.

For traders who rely on VWAP as a better measure of price action than raw price data, the FX Price dataset offers valuable information.

4 FX FORECAST DATA

CLS Volume Forecast combines historical patterns with an economic calendar of events and other data to generate a highly accurate forecast of expected volumes for each of eight currency pairs over a 125-hour forecast window.

The dataset has many applications for liquidity seekers, and can be used to build predictive analytics for trading, risk management, and best execution.

DATA PRODUCTS SUMMARIZED

This chart summarizes the different data products currently available from CLS via Quandl.

FX	1 VOLUME	2 FLOW	3 PRICE	4 FORECAST
DESCRIPTION	Transaction volumes for 33 currency pairs representing 50% of global FX activity	Transaction volumes aggregated by type of market participant and side of trade taken	Transaction prices weighted by volume (VWAP) and by time (TWAP)	Forecasted FX volume for 8 currency pairs
HISTORY	From 2011	From 2012	From 2015	From 2017
GRANULARITY	Hourly aggregates	Hourly aggregates	5-min aggregates	Hourly aggregates
DELIVERY FREQUENCY	Available in hourly or end-of-day variants			Daily
REPORTING LAG	Within 30 minutes of the end of each hour			N/A (forecast)
COVERAGE	33 FX pairs covering 50% of global FX volume			8 currency pairs
DATA SOURCE	Direct from executed trade confirmations received by CLS for settlement			
CURRENCIES INCLUDED	USD, AUD, CAD, CHF, DKK, EUR, GBP, HKD, HUF, ILS, JPY, KRW, MXN, NOK, NZD, SEK, SGD, ZAR			USD, AUD, CAD, CHF, EUR, GBP, JPY
TRADE TYPES	Spot, Swap, Forward	Spot	Spot	Spot
KEY FIELDS	Time, Currency Pair, Trade Count, Trade Volume (USD)	Time, Buyer & Seller Type, Currency, Volume, Count	Time, Currency Pair, VWAP, TWAP	Time, Currency Pair, Forecast Date, Volume

DATA APPLICATIONS

TRADING:

Quandl's new FX datasets have clear applications for currency traders and portfolio managers. Research on these datasets suggests they have significant predictive power for the market and can be used for a variety of forex trading strategies.

EXECUTION OPTIMIZATION:

Corporate treasurers, asset managers and other major market participants are always sensitive to friction in trade entry/exit, and looking for ways to "execute better". One possible improvement is to trade only when liquidity is plentiful; however, in the absence of readily available real-time volume data, such windows are difficult to identify. The new FX datasets from Quandl make this task much easier.

TRANSACTION COST ANALYSIS:

For participants transacting large notional amounts, measuring actual prices against expected slippage is a key part of improving performance. However, without knowing the true depth and liquidity available in the market at any given time, it is challenging to estimate the true costs of a transaction. The new FX datasets from Quandl empower such analyses.

LIQUIDITY RISK MANAGEMENT:

Any risk manager for a global portfolio needs to know how quickly they can exit a foreign currency position or create a hedge, and what the cost will be in the form of trade slippage. But in the absence of reliable volume and flow data, these factors are difficult to model accurately. The new FX datasets from Quandl make such analyses possible.

GETTING STARTED WITH THIS DATA

FX Volume, Flow, Price and Forecast datasets are now available to professional investors via the Quandl data platform. If you'd like to learn more about these products, please contact us.

[Contact Us](#)

