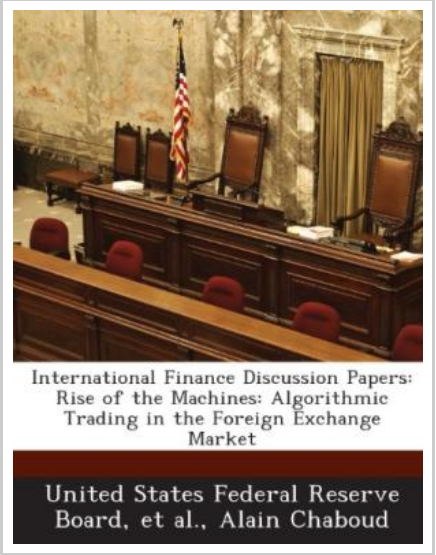

International Finance Discussion Papers: Rise of the Machines: Algorithmic Trading in the Foreign Exchange Market

By Alain Chaboud

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.We study the impact that algorithmic trading, computers directly interfacing at high frequency with trading platforms, has had on price discovery and volatility in the foreign exchange market. Our dataset represents a majority of global interdealer trading in three major currency pairs in 2006 and 2007. Importantly, it contains precise observations of the size and the direction of the computer-generated and human-generated trades each minute. The empirical analysis provides several important insights. First, we find evidence that algorithmic trades tend to be correlated, suggesting that the algorithmic strategies used in the market are not as diverse as those used by non-algorithmic traders. Second, we find that, despite the apparent correlation of algorithmic trades, there is no evident causal relationship between algorithmic trading and increased exchange rate volatility. If anything, the presence of more algorithmic trading is associated with lower volatility. Third, we show that even though some algorithmic traders appear to restrict their activity in the minute following macroeconomic data releases, algorithmic traders increase their provision of liquidity over the hour following each release. Fourth, we find that...

Reviews

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