

Will Human Forex Dealers Become Extinct?

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Keyword: Foreign exchange market, Market microstructure, Algorithmic trading

The global interbank spot foreign exchange market is dominated by two matching service computer systems: EBS and Reuters-3000. The EBS has a stronger service in USD, JPY and EUR markets; and the Reuters is a stronger service in GBP, Commonwealth currencies, and central European currencies. The EBS started to allow direct connection of trading computers of banks to the EBS matching computer, starting 2004. The number of bank computers that are directly connected to EBS increased sharply from 2004 to the late 2000s. During the same period, non-bank algorithmic traders were allowed to be connected to the EBS system. The connection of these bank and high-frequency traders' computers to the EBS system changed the microstructure of the Forex market fundamentally. First, the computer connection (Machines) made the Forex market more efficient in the following senses: the emergence of violation to arbitrage conditions became less frequent and once the violation emerges, the time to disappear became shorter. Second, the instances of "flashing" increased and human traders (Humans) cannot deal with flashing. Third, decimalization of the trading unit (pips to 10th of pips) was very unpopular with the Humans, that the EBS reversed it to half pip. Fourth, the EBS introduced measures to protect human traders from extinction, such as a minimum life for quotes. Taken all together, the Machines are willing the trades and Humans need protection by the EBS. The paper concludes with the prospects of the market microstructure in the future.