

Headline: [Algorithmic trading share in total turnover grows to 50% in 8 years](#)

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Algorithmic trading share in total turnover grows to 50% in 8 years

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Algorithmic trading in India across the cash and derivatives market as a percentage of total turnover has increased up to 49.8% in eight years from merely 9.26% (average) in 2010.



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Algorithmic trading in India across the cash and derivatives market as a percentage of total turnover has increased up to 49.8% in eight years from merely 9.26% (average) in 2010. In March this year, 44.8% of the cash market volume and 48.2% of the equity derivatives market was driven by algo, showed NSE data. On the BSE, 37.22% of trade in March 2018 was driven by algo trading.

“The daily turnover of equity market is around Rs 25,000 crore to Rs 30,000 crore, and in the F&O market, it is around Rs 3.5 lakh crore to Rs 4 lakh crore on a daily basis. Investors mainly use algos for options trading,” said Chandan Taparia, derivatives and technical analyst at Motilal Oswal Securities. However, as far as awareness of the retail investor is

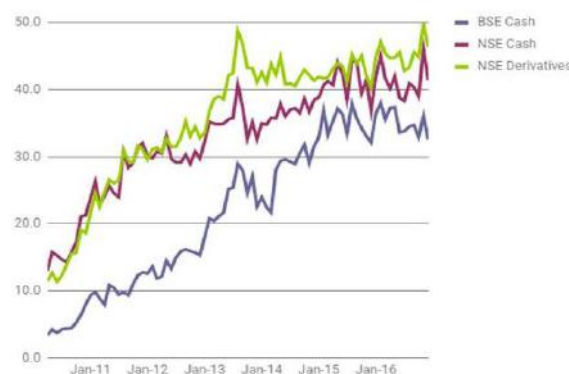
concerned, it is less in India. “This is mainly because it requires specialised skills in addition to tools. Apart from quantitative analysis, one needs to know coding to implement the strategy,” added Anil Ghelani, senior V-P, DSP Blackrock.

Sebi’s recent announcement on steps for strengthening algo trading through shared co-location has boosted the sentiments of algo solutions providers. However, stock exchanges in India have not yet launched co-location services. “With regards to co-location, we will be launching the service soon. Sebi has already issued the circular and now we have to implement it. The circular regarding co-location will come in the next 10-15 days,” said an official from a stock exchange.

Vivek Gadodia, co-founder at Dravyaniti Consulting, believes that in the near future human-machine interaction could go to the next level. “Through Deep Learning, AI, algorithms will self-correct and adapt to dynamic markets. Algos will be everywhere, in HFT, mid-to-low frequency, arbitrage, scalping, hedging, market making and anything you can define to a machine,” he added.

“The efficiency of almost any trading done on the exchanges can be improved by leveraging technology. Automation of the trading process not just improves the efficiency of the trading participants, but also improves the efficiency of the market itself — arbitrageurs use automation to rectify pricing anomalies; and market makers use the power of technology to improve liquidity by providing continuous buy and sell quotes which automatically adjust to events and risks in the market,” said Rajib Ranjan Borah, director at iRage Capital and QuantInsti Quantitative Learning.

In March, algo trading volumes in India across the cash and derivatives market was Rs 7.9 lakh crore, of which around 46.5% of volume (around Rs 3.67 lakh crore worth trade across the cash and derivatives market) was driven by algo. It includes direct market access (DMA) and co-location. The rest of the volume was driven by mobile phones, internet, smart order routing and non-algo method.



According to a National Institute of Financial Management (NIFM) report, the share of algorithmic trading in exchange turnover was stabilised at around 47% (till February 2017) in India across the cash and derivatives segment on the NSE. In March 2018, this rose to 48.29% in equity derivatives and 44.8 % in cash market. Additionally, majority of the trading activity of algo players is only in liquid scrips/contracts and in developed markets such as the US, it stands at approximately 70- 80% and the high frequency trading accounts for as much as 70% of the US equity market turnover.

A stock exchange official said, "Some market participants may not need algo. They are required only for specific situations. It just gives an opportunity for brokers' access to exchanges at the same time and with same latency. Before an algorithm hits the market, brokers go through a rigorous process of verification. In other markets, hardly any one goes through such rigorous process of testing of algorithms."