One Commodity Group Offers Algo-Based Commodity Arbitrage Asset Management

Algorithmic trading is continuing its march through the asset classes. Propshops in other asset classes are bringing algorithmic trading to commodities markets.

OSAKA, JAPAN, October 15, 2018 /EINPresswire.com/ -- Commodities traders increasingly are adopting algorithms, but these aren't the equity markets' automated trading strategies, as commodities algos often make room for human discretion.

Shusaku Kimura, CEO of One Commodity Group Inc. (1Commodity), a provider of high-performance trading technology infrastructure as a service, says automated trading strategies are expanding into commodities, such as energy and agriculture. "A lot of these firms are trading one part of the futures market and then moving to others," he relates. After they "deploy a certain amount of capital into a strategy, they feel they have to move into another asset class." Most of the automated trading in commodities is taking place on futures and options exchanges in the Chicago area, though there is some activity cropping up in New York, notes Kimura, whose firm provides connectivity to the CME, CBOE and Intercontinental Exchange (ICE).

One of the reasons commodities are attracting new players and new strategies is that the markets are not as mature as equities. "It's a less-trodden path than, say, equities, but the facilities are there to do it if one has the right strategy," Kimura points out, suggesting that there is greater opportunity in commodities for electronic strategies to take advantage of market inefficiencies. Also, with more and more institutional money flowing into commodities, both through exchange-traded funds and listed futures and options, managers are looking for new ways to generate alpha in commodities.

"The asset class that has seen the most recent take-up in automation is commodities," says Scott Greenfield, head of commodities for Europe, the Middle East and Africa (EMEA). Proprietary trading firms, he adds, don’t care about the underlying asset. "All they want is liquidity and price discovery and enough depth. They don't want to be in positions that they can’t close within a reasonable time frame. Whether that’s U.S. Treasury bonds, oil or sugar — it doesn’t matter," Greenfield explains.

Though the exchanges don't necessarily reveal how much of their volume originates from machines versus human traders, Greenfield asserts that there is evidence that in the most-active front-end oil contracts (ICE Brent Crude Futures and WTI Nymex), as much as 40% of the volume is generated by algo-trading.

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