

SingTel makes gains as algo trading expands

Telco provides its customers facilities for the mathematics-based trading system which relies on its low-latency network, reports **AMIT ROY CHOUDHURY**

BUILDING on its telecom network, Singapore Telecommunications (SingTel) is looking to cash in on the connectivity demands of the fast-growing derivatives trading market in Asia by providing to its customers what are known as algorithmic trading facilities.

Algorithmic trading, or algo trading as it is referred to, is a system which uses advanced mathematical models for making transaction decisions in the financial markets.

The mathematical model attempts to determine, among other things, the optimal time for an order to be placed that will cause the least amount of impact on a stock's price.

Speed of transactions – that is connectivity with low latency – is very important in such transactions. Algo trading is mostly used by large institutional investors because of the large amounts of shares they purchase every day.

In 2008, SingTel launched Asia's first algo trading service to provide sub-millisecond access to the Singapore Exchange's (SGX) trading engines. A year later, the company launched an ultra-low latency service between Singapore and Japan to enable algo trading between SGX and major Japanese exchanges.

Last year, SingTel established a service to enable algo trading access to the Singapore Mercantile Exchange (SMX) and the Tokyo Commodity Exchange (Tocom) commodities markets. SingTel, together with its Japanese partner KVH, continues to be the only provider of low-latency services for algo trading in Asia today.

Speaking to BizIT, SingTel's executive vice-president of Business Group, Bill Chang, noted that algo trading already accounts for about 20 per cent of derivatives trading on Asia's trading exchanges and is forecast to reach 30 per cent by 2015 (led by Japan, Singapore and Hong Kong).

According to Tabb Group and BCG Analysis, in SGX alone 30 per cent of



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derivatives trading is from high-frequency trading, added Mr Chang.

"The financial industry is an important area of growth for SingTel, and over the years, we have developed a suite of ICT (infocomm technology) services for companies in this industry.

"There has been rapidly growing demand for algorithmic trading from retail banks, trading firms and trading services providers. The ability to provide such a trading platform is important as we transform from a provider of traditional carriage services to be a provider of one-stop ICT and cloud solutions in Singapore and the region," said Mr Chang.

According to market watchers, algo trading has become a hot topic in the trading community, where traders have programmes to trade on their behalf, and to capture arbitrages between local and regional exchanges. These traders are very sensitive to speed of connection – reliable low-latency connectivity is vital.

For banks and trading houses, having reliable, high-speed connectivity for geographically dispersed locations is mission-critical. A few milliseconds could mean the difference between earning and losing millions of dollars.

Talking about SingTel's partnership with KVH, Mr Chang noted that the two were the first to establish a

service to provide local algorithmic traders with access to SMX and Tocom. "Demand for the Singapore-Japan trading network has been very strong. In fact, we have increased our network capacity by four times to cater to customer demand. One of the key reasons for our success is our ability to provide the lowest possible latency connection between Singapore and Japan."

Discussing future prospects, Mr Chang noted that SingTel, with its extensive international network and presence in Asia, is in a unique position to play an important role in accelerating the growth of algorithmic trading across the globe. "We see tremendous potential in algorithmic trading, and we have invested in additional international network capacity to meet the fast growing needs of our customers."

He added that the company is now looking to expand its algorithmic trading services beyond Singapore and Japan to include key trading hubs in Australia, Europe, the United States and other parts of Asia. "Through the innovative use of infocomm technologies, we seek to open the doors to more exciting growth opportunities for trading companies and further strengthen Singapore's position as a global financial hub."

He added that this year SingTel is extending its low-latency services to include major trading hubs such as London, Frankfurt, Chicago, Sydney, Seoul and Hong Kong.

Mr Chang noted that in addition to low-latency services, SingTel offers proximity-hosting service that provides ultra-high-speed direct access to market data at the exchanges for trading customers who are hosted at SingTel Data Centres. "This is offered with the option of disaster recovery to ensure business continuity."

We also offer a service to allow traders to connect directly from their overseas sites to trading engines in all exchanges in Singapore via our award-winning ConnectPlus Ethernet and IP-VPN networks, the SingTel official added. "This means there is no need for traders to house additional equipment in Singapore, thus helping to reduce their costs."