

Where the Blocks Are

Here we examine the liquidity landscape for Block Trading since the beginning of the year. Generally, Block Trades are considered the most preferable type of liquidity. The large size of a block allows the trader to complete orders faster than otherwise. This means that there is less potential information leakage to potentially cause price impact (and increase trading costs). Also, there is less market risk of the price moving away from you if you can complete a trade faster by accessing some block liquidity. What changes have we seen in block liquidity over 2020?

Our focus is on what types of venues have blocks been executed and which types of venues are most likely to provide block liquidity for different industry sectors. For this analysis, we look at only at blocks executed in EMEA. The LiquidMetrix Venue Statistics database which stores trades on all trading venues globally and is the source of our data on block trading.

This week's highlights:

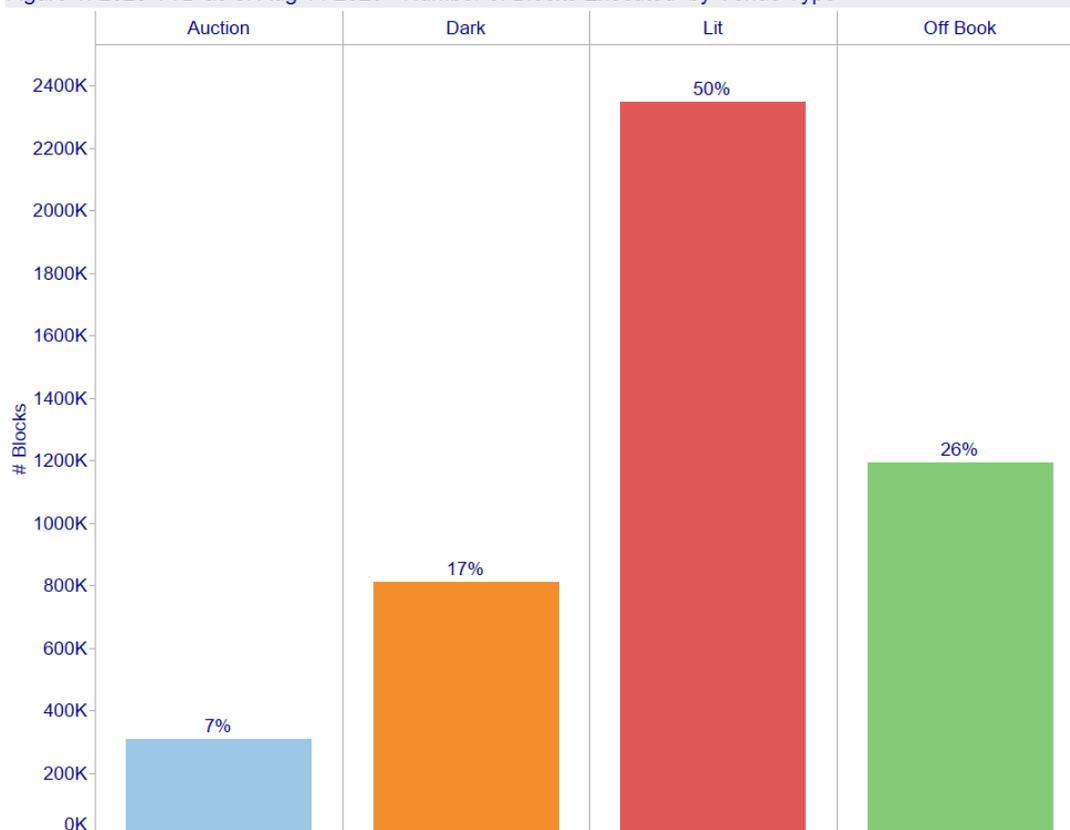
- Stocks from different industry sectors may find Block liquidity in different types of trading venues.
- There have been recent large shifts in block executions in some industry sectors.

Before looking at potential changes in block liquidity, we need to define what we mean by a block. In the U.S., neither Congress nor the SEC has ever issued a legal definition of a block trade. The traditional and still way too often used definition of a block trade is from the New York Stock Exchange's Rule 127.10. This defines a trade as a "Block" if it involves at least 10,000 shares of stock or a market value of \$200,000. However, this rule dates to 1979 when trade volumes were a fraction of what they are today. In practice, blocks are much larger. The other problem with this definition is that it uses absolute values (e.g. 10,000 shares & \$200,000). Different trade size rules, the number of shares available in different markets and FX rates make an absolute definition impossible to use for a cross-country analysis. At LiquidMetrix, we prefer to use the much more recent MiFID II designation of Large in Scale ("LIS") trades that defines a Block in terms of the order's size relative to the average daily volume traded in that stock¹. We will use this as the definition of a Block trade.

So where are the blocks located? Figure 1 (below) shows the breakdown in both number of block executions across 4 different venue types: Lit markets, Dark Pools, Off Book Trades and Auctions. Overall Lit markets account for half of all block executions.

Figure 1

Figure 1: 2020 YTD as of Aug 11 2020 - Number of Blocks Executed by Venue Type



If we examine where blocks are traded by industry sector¹ (see Figure 2 below), we see that two sectors have blocks largely executed on Lit markets. These sectors are Basic Materials (Companies that manufacture chemicals, building materials and paper products. Companies in this sector include ArcelorMittal, BHP Billiton and Rio Tinto) and Communication Services (Companies that provide communication services using fixed-line networks or those that provide wireless access and services. This sector also includes companies that provide internet services such as access, navigation and internet related software and services. Companies in this sector include AT&T, France Telecom and Verizon Communications). Basic Materials and Communication Services also have by far the largest number of Blocks in absolute number of executions.

For other industry sectors, Lit markets account for approximately 20% of block executions. Excluding Basic Materials and Communication Services, Off-Book trades account for the largest number of block executions, but this can vary from a third to half of the Blocks executed among the different industry sectors. Dark Pools are generally in the area of 25% - 30% of Block executions.

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Figure 2

Figure 2: 2020 YTD as of Aug 11 2020 - Number of Blocks Executed by Sector



Figure 3 (below) shows the percentages of executed blocks by week since the beginning of the year. What is interesting is that the dominance of blocks executed in Lit markets in a recent phenomenon occurring only over the past 6 weeks. Prior to that, block liquidity was found more or less equally on Lit markets and Off Book, with Off Book having slightly more block trades.

Figure 3

Figure 3: Pct of Blocks Traded By Venue Type By Week

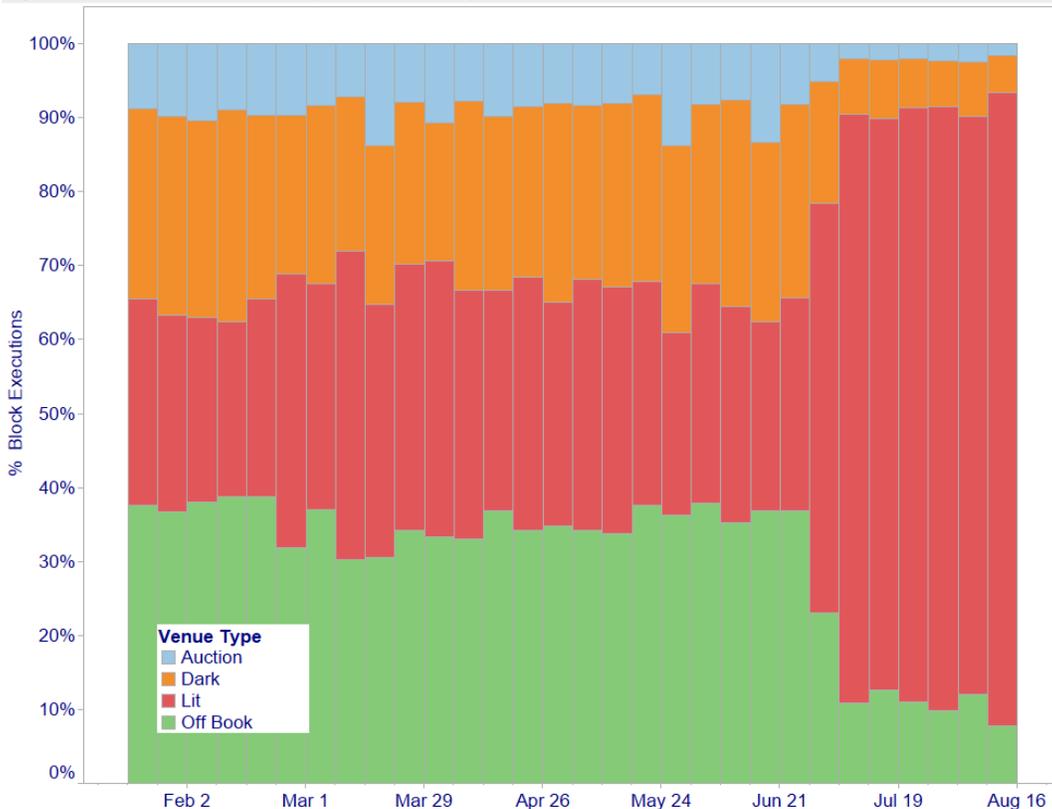
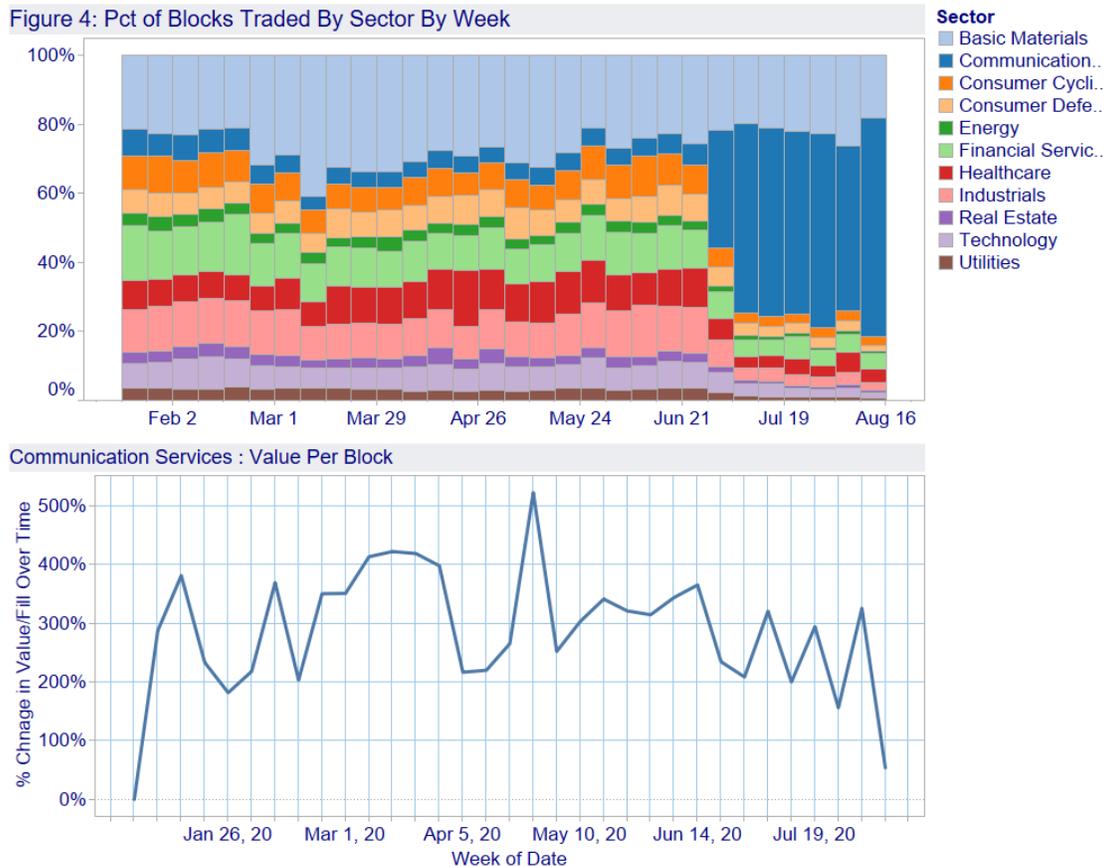


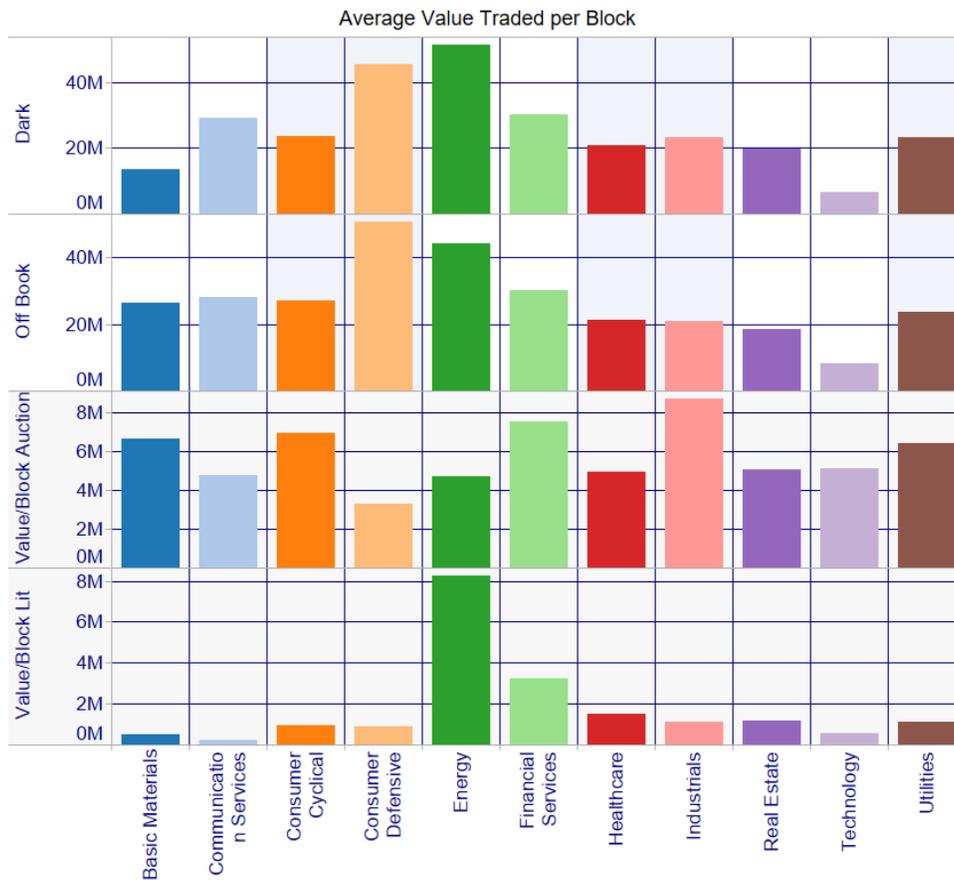
Figure 4 answers the question of what was responsible for more blocks being done in Lit Markets. There was a large increase at the same time of block executions in the Communication Services sector. However, simultaneous with this is a decline in the value per block fill.

Figure 4



Although many more blocks were traded in Lit markets for the Communication Services sector, blocks trades done on Lit markets are generally the smallest among all the different venue types. Figure 5 (below) shows the average value per block execution by industry sector. Only in the Energy sector are blocks traded in Lit markets commensurate with the value traded on other venue types.

Figure 5



ⁱ The order size necessary for classification as a Large-in-Scale order according to MIFID II depends on the size of the order compared to the average daily turnover for the individual stock. Minimum size order to qualify as large in scale, compared to average daily turnover (ADT) (EUR) is:

Average Daily Turnover (in EUR)	Minimum Order Size (EUR) to be a Block (LiS)
ADT < 50,000	15,000
50 000 ≤ ADT < 100 000	30,000
100 000 ≤ ADT < 500 000	60,000
500 000 ≤ ADT < 1 million	100,000
1 million ≤ ADT < 5 millions	200,000
5 millions ≤ ADT < 25 millions	300,000
25 millions ≤ ADT < 50 millions	400,000
50 millions ≤ ADT < 100 millions	500,000
ADT ≥ 100 millions	650,000

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