

WORLDS BEST FX INSIDE TRADERS

By Daryl Guppy

The Australian financial regulator ASIC has launched an investigation into the 'suspicious trading' responsible for the jump in the AUDUSD just prior to the release of the Reserve bank of Australia announcement of its surprise decision to hold interest rates in March 3. This follows a similar sharp move just prior to the release of Reserve Bank decision in February. Some call this inside trading. Others in the FX market call it informed trading.

Inside trading in global FX markets? Really? We don't have the resources of ASIC to unwind trade records, but we do know how to read a chart.

The pair in focus is the AUDUSD. Here's the chart. Quite clearly there is a sharp move before the release of the report. The release time is shown as 13.00 on the 2 minute chart because we use NT time on our computer system.



Yep, that a clear case of informed trading. High volume and a large price move in the 2 minutes prior to the official release of the Reserve bank decision. But there is a problem Look at the charts below. The black vertical line shows the 13.00 official time of the official release of the report. Every AUD pair, from the most actively traded like AUDCHF, to the least traded like AUDSGD show EXACTLY

THE SAME BEHAVIOUR. Every AUD pair moves dramatically in the 2 minutes prior to the 13.00 release time.



Ok, the major pairs often move together but note the move is not exactly the same as the AUDUSD pair. What happens with the smaller crosses?



These CAD and HKD pairs show similar reactions, although the correction following the release is much greater than in the previous charts. Also there is more volume increase in the AUDCAD pair than the AUDHKD pair in the lead-up to the report release.



By now it's going to come as no surprise when the minor currencies like the AUDSGD cross behave in much the same way. However the doji candle pattern with AUDNZD is quite different from the AUDUSD pair and this shows the charts are created in response to completed trades.

We must have the worlds best FX inside traders to be able to take such large positions in every AUD pair at exactly the same time! We take our hats off to these traders because they have achieved the impossible.

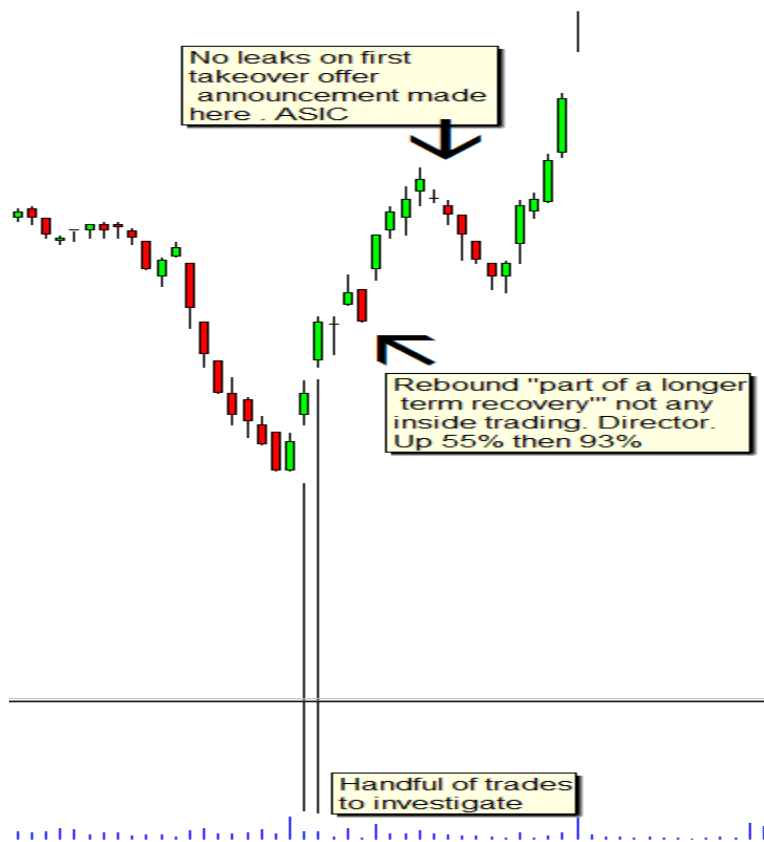
Of course that explanation is plain garbage. A single inside trader might trade one pair, but it is highly unlikely they would have the inclination or the resources to trade EVERY AUD pair.

The exact replication of the fast up move in all AUD pairs in the 2 minutes prior to the 13.00 release of the information is not best explained by inside trading. It is more reasonably explained by the early loading of Reserve Bank information to servers prior to the official release of the data. This is a global market reacting instantly to information as it becomes available to ALL PARTICIPANTS. (Remember the instant reaction to the Swiss Bank decision across all Swiss currency pairs.)

The charts clearly show that the Reserve bank information became available to many participants in the 2 minutes prior to the official release time of 13.00. These moves are captured across all pairs by High Frequency Quantitative Trading Algorithms. They have algorithms running in the Dark Pools. These are on the institutional side, not the mums and dads. (We cannot go back to the release date in February, but we reckon we would see the same behaviour across all currency pairs.)

The charts clearly suggest that the problem is in the way the Reserve bank loads this data to the web in preparation for its official release at 13.00 NT time.

The duplication of behaviour across all AUD pairs shows this information is available to many, if not all, participants at the same time.



The regulator has decided to focus attention on the deepest and most liquid market in the world in its search for inside trading rather than on the processes around the way the Reserve bank releases information. We really wish they would focus effective attention on the numerous examples of informed trading that take place in the Australian equity market where the number of trades to be investigated is much smaller.