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HIGH-FREQUENCY MARKET MAKING TO LARGE INSTITUTIONAL TRADES

We characterize high-frequency trader (HFT) and designated market maker (DMM) behavior in the presence of large, directional institutional trade packages in Canadian equity markets. HFT liquidity provision is significantly reduced for “stressful” trades. HFT average stock-day profitability is under $300, mostly from liquidity re-bates. HFTs reduce liquidity provision after losses. The average effective spread for large non-stressful (stressful) institutional trades is 12 (42) basis points and is significantly affected by HFT choice of liquidity provision. Over the life of a large trade, HFTs initially accommodate the order, but quickly switch to competing with the order.