Liquidity and the rise of fast trading on Euronext

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Abstract

Using full order book and trade data on the CAC40 stocks, we investigate how liquidity changes during the rise of fast trading on Euronext between 2002 and 2006. We find that market activity is more intense in 2006, with a much higher percentage of orders being cancelled. Although we observe disparities among stocks, we find that volatility goes down, spreads decrease, and depth rises from 2002 to 2006. Using market members' identification codes, we identify fast traders in 2006 based on message traffic and the lifetime of orders. We then separate the CAC40 stocks in two groups. By distinguishing stocks most exposed to fast trading in 2006 from those most immune from it, we show that the fast-traded stocks benefit the least from the liquidity increase. These fast-traded stocks could have maintained their liquidity 'edge' observed in 2002, had they been better immune from fast trading.

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