



Intelligent Commodity Investing

New Strategies and Practical Insights for Informed Decision Making

Edited by Hilary Till and Joseph Eagleeye

The Move to Electronic Trading: What to Expect in the Natural-Resources Commodity Markets

George Dowd
Spectrum Asset Management, LLC

June 11, 2007

*Merrill Lynch
4 World Financial Center
New York , NY*





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The Move to Electronic Trading:

Execution Speed

What are the mechanics of a pit order?



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The Move to Electronic Trading:

Execution Speed

*“In the fourth quarter of 2006, we provided our customer firms the opportunity to connect their co-located trading servers to our network over high-speed fiber optic connections. **These server connections are expected to decrease network latency times for order entry to the CME Globex trading platform to less than one millisecond.**”*

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC.
FORM 10-K, For the Fiscal Year Ended December 31, 2006



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The Move to Electronic Trading

Pit vs. Electronic

	Pit	Electronic	Benefit
Physical limit to number of market makers?	Yes	No	Better and different liquidity
Membership requirement?	Yes	No	Lowers barriers to entry
Friends and family plan?	Yes	No	Levels the playing field for participants
Short term trading constraints?	Yes	No	Fast fills enable shorter term trading horizons



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Example

Spectrum Asset Management, LLC
Current System Timeframes

- Long term 65 days
- Medium Term 30 days
- Short Term 10 days
- Intraday -----

Intraday systems are now possible in all markets except meats.



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Man vs. Machine

- Execution, arb and directional algorithms are now possible.
- Speeds have surpassed human perception.
- Algorithms do not suffer from processing limitations and quirks of the human mind.

Inattentional blindness, etc.

(see <http://viscog.beckman.uiuc.edu/grafs/demos/15.html>)



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The Move to Electronic Trading:

What to Expect Going Forward

- Increase in short term algorithmic trading in the commodity markets
- Liquidity aggregators for identical / similar products
- Venue Competition, Contract Competition
- Decreasing costs
- Some pits remain