

Warehouse Liquidity Depletion

Feature Booklet

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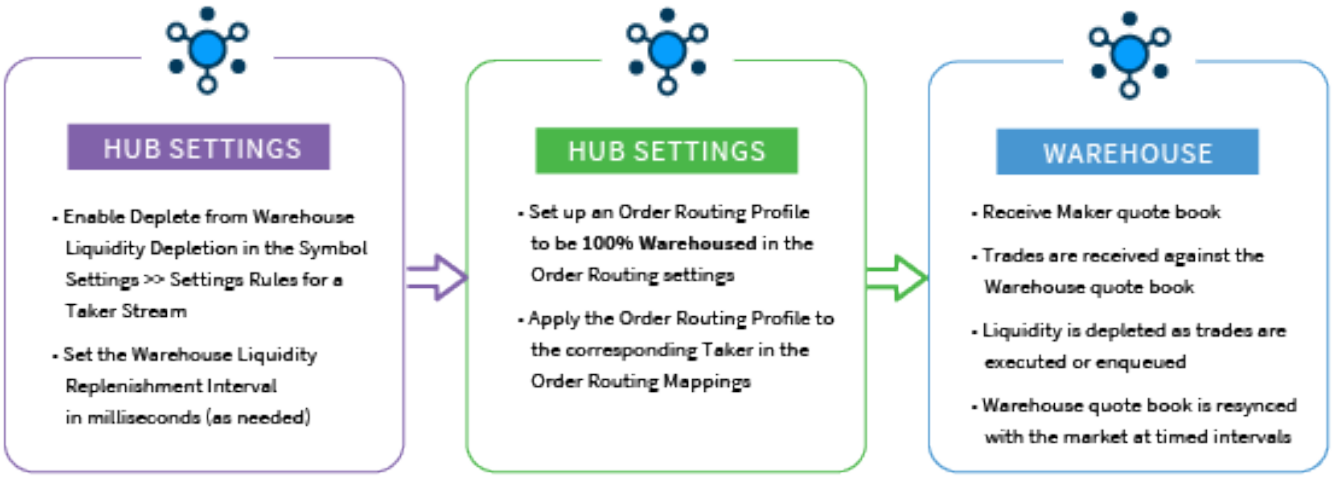
Warehouse Liquidity Depletion

Warehouse Liquidity Depletion is a practical solution for managing the risk on your warehoused trades. Enabled by Taker Streams, warehouse trades are executed against the quote book, thereby depleting the tradable liquidity, much in the same way hedge liquidity depletion functions. To ensure that the quote book for the Taker Stream is kept closely in line with the market, the Warehouse Quotes (Liquidity) have their tradable liquidity synced up with the Maker Quotes (Liquidity), at a configurable frequency or when a quote update refreshes the warehouse quote book.

These measures help you to manage your risk against traders or robots reading execution report signals and then rapidly replicating trades, or against traders executing small lot “machine gun” trades with the goal of filling a large amount of liquidity at the TOB price. Warehouse Liquidity Depletion also helps to ensure that positions built up in the warehouse more accurately reflect what is available in the market when liquidating warehoused positions.

Important: Taker Streams using Warehouse Liquidity Depletion must have Order Routing Profiles set to 100% Warehoused.



How does Warehouse Liquidity Depletion work?

Similarly to the way liquidity is depleted when hedged trades are executed against the quote book, warehoused liquidity can also be depleted. The following example shows both warehoused and hedge liquidity depleted by trades executed against the quote books by Taker 400 on Taker Stream 10 (as enabled in the Settings Rules for Warehouse Liquidity Depletion).

Taker Stream Quote Book			
Layer	**Price**	**Hedge Liquidity**	**WH Liquidity**
1	1.1	1M	1M
2	1.2	2M	2M
3	1.3	3M	3M
4	1.4	4M	4M
5	1.5	5M	5M

Taker Stream Quote Books: synchronous hedging and warehouse



Taker Stream Quote Book			
Layer	**Price**	**Hedge Liquidity**	**WH Liquidity**
1	1.1	1M	DEPLETED
2	1.2	2M	DEPLETED
3	1.3	3M	3M
4	1.4	4M	4M
5	1.5	5M	5M

Warehouse Execution Depletes Warehouse Liquidity (based on settings for Taker Stream 10)

Warehouse Tradable Liquidity Taker Stream 10—Taker 400: Trades 3M

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Taker Stream Quote Book			
Layer	**Price**	**Hedge Liquidity**	**WH Liquidity**
1	1.1	DEPLETED	DEPLETED
2	1.2	DEPLETED	DEPLETED
3	1.3	1M	1M
4	1.4	4M	4M
5	1.5	5M	5M

Hedge Trade Depletes from Maker/Hedge Liquidity Trade sweeps through Maker Quote layers (same Taker Stream 10 and Taker)

Hedge Tradable Liquidity Taker Stream 10—Taker 400: Trades 5M

Setting Up Warehouse Liquidity Depletion

To configure Warehouse Liquidity Depletion settings in the Settings Rules on the Hub:

1. Click Settings > Symbol Settings and scroll to Settings Rules.
2. Locate the rule in the table scheduled for Warehouse Volume Depletion and configure as follows:

Setting	Do this...
Enable Warehouse Liquidity Depletion	Select to deplete the quote volume on this Taker Stream's quote book as a result of Warehouse executions.
Warehouse Liquidity Replenishment Interval	Indicate in milliseconds how often the available warehouse volume should be resynced to match the available hedge volume. Guidelines: The default is 1 second; the minimum allowed is 100 milliseconds.

3. Click Save and Apply Dynamic Settings.

Result: The Warehouse Liquidity Depletion Settings for the symbol or symbols and corresponding Taker Stream are configured and saved.

How does the Warehouse Liquidity Replenishment Interval work?

The liquidity depleted, due to Warehouse executions, refreshes when either:

- There is a quote update from the Maker that would normally update the synchronous hedge tradable volume.
- The configured Warehouse Refresh Interval timer hits.

Result: This causes the warehouse tradable quote liquidity to resynchronize to the hedge tradable quote liquidity.

Implementing Warehouse Liquidity Depletion

To implement Warehouse Liquidity Depletion, the Order Routing Profile in the Warehouse settings must be configured to be 100% Warehoused. Apply the Order Routing Profile (from the Order Routing Mappings) for the corresponding Taker.

To configure Warehouse settings:

1. Click Settings > Warehouse and scroll to Order Routing Profiles.
2. Add or modify a profile with the following configuration:
    - Order Routing Mode > Warehouse
    - Percent for Hedge > 0
3. Scroll to Order Routing Mappings and add or modify to have the following configuration:
    - Core Symbol > * (wildcard), regular expression, or symbol value.
    - Symbol Group Path > * (wildcard), regular expression, or symbol group.
    - Order Routing Profile Name > Profile with 100% Warehoused.
4. Click Save and Apply Dynamic Settings.

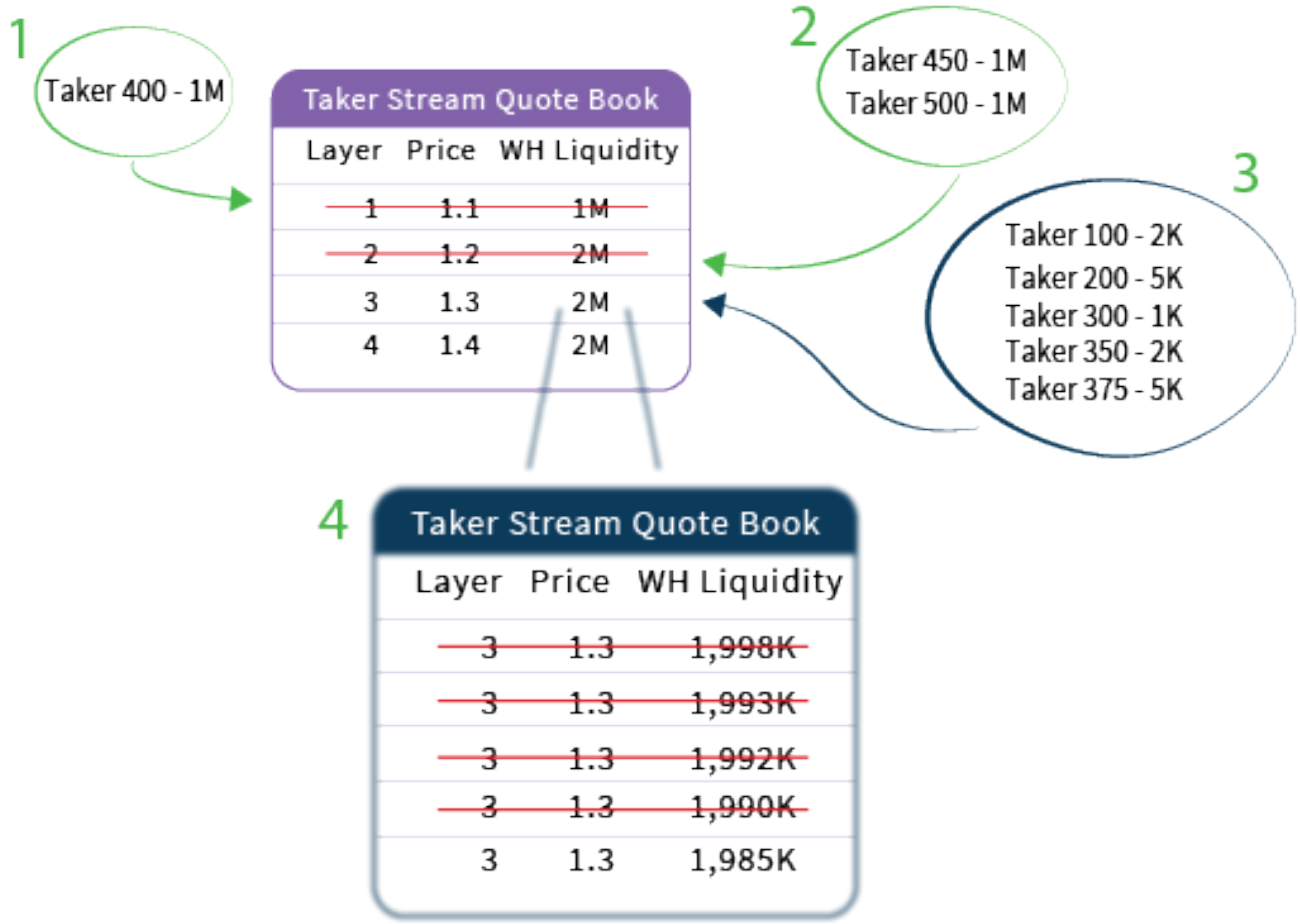
Result: The Warehouse settings for implementing Warehouse Liquidity Depletion are configured and saved.

Tip: A Maker Quotes tab for Taker Quotes on the Status page lets you compare the liquidity in the Warehouse (Quotes tab) with available Maker liquidity.

Use Case | Warehouse Liquidity Depletion

Traders and/or robots reading execution report signals can implement rapid trading against the warehouse for TOB pricing. Because the warehouse doesn't deplete liquidity the way hedged tradable liquidity does, traders can take advantage of choice pricing on warehoused trades. Warehouse Liquidity Depletion provides an elegant solution to the problem of incurring losses due to toxic traders.

Example: You do a large part of your trading activity through your warehoused liquidity. Lately you have suffered some losses because of what's called "machine-gunning," that is, high liquidity, small lot trades that are submitted at a very rapid pace for TOB prices. In order to mitigate your risk on your warehoused trades, you perform an analysis of trading activity against your warehouse in order to identify the traders in question. Once identified, you add them to a Taker Stream in the Hub. In the Settings Rules, you enable Warehouse Liquidity Depletion for the Taker Stream.



Explanation:

1. Trade from Taker 400 for 1M depletes the first layer of the quote book at TOB price.
2. Takers 450 and 500 both submit trades for 1M each to deplete layer 2 of the quote book.
3. Takers 100 - 375 read execution price signals and submit several smaller trades between 1K and 5K a rapid pace (within milliseconds), hoping to obtain choice TOB pricing.
4. The warehouse implements volume depletion which executes the rapid-fire trades at layer 3 pricing of the quote book.

Result:

Liquidity in the warehouse was depleted as trades were received, mitigating your risk and protecting against losses.