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Research Announcement

An examination of own account trading by dual traders in futures markets

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Abstract

Using proprietary audit trail transaction data compiled by the Commodity Futures Trading Commission, we investigate, at the individual trader level, (1) the timing and (2) the determinants of dual traders' personal trades. Our analysis reveals an absence of any trade timing by dual traders in relation to the execution of their customers' orders. Even after simultaneously controlling for factors representing information, liquidity supply and inventory control, within a multivariate regression framework, liquidity supply and inventory control remain as the determinants of dual traders' personal trades. Overall, the emergent profile of a dual trader is that of an uninformed trader performing complimentary tasks of liquidity provision and personal inventory management. These results survive extensive robustness checks, question the assumptions underpinning the extant theoretical research and have important policy implications.

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