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Tales of a Trader

The First Day on the Job

There I was, sitting in the huge entry hall of the bank's headquarters, waiting for my new colleagues to pick me up. I had just been hired as a money market trader, and this was the first day on the job. As a student in finance I had at some point become fascinated with financial markets, and novels like Michael Lewis's "Liar's poker" had greatly influenced my job choice. I was dreaming of making a lot of money in not too much time.

Along comes Christine, my new boss. She escorts me to the elevator which brings us to the 4th floor, in front of a glass door with a card reader on its side. Christine swiftly swipes her card through the reader and the glass door slides open. We enter a room about twice as big as a tennis court, with a ceiling that seems too low for a room this size. On the blue carpet stretching across the floor are long rows of desks with traders and salespeople sitting next to each other. None of them has more than a meter and a half of desk space; most of them are talking on at least one of their two phones. The whole room is filled with the buzz of around 100 people talking at the same time. Some people seem very focused, staring alternately at their four computer screens, trying to make sense of all these colored numbers and graphs on the display; others are

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This case was prepared by Pascal Trauffler, Research Assistant, under the supervision of Professor Javier Santomá, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. February 2005.

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engaged in tense conversation with some broker at the other end of the line; still others are leaning back in their chairs, relaxed and apparently slightly bored, but nervously squeezing these soft-foam anti-stress balls in their hands, waiting for someone to make the market move.

It feels like a mix between a newspaper newsroom and a casino. There is that constant noise of people talking to each other, and the tenseness of gamblers concentrating on their game.

Christine leads me to my desk and introduces me to Helen who just got promoted to another desk, and from whom I will take over. Helen starts explaining what exactly I am supposed to do in this job.

"On this desk, we are in charge of the bank's day-to-day treasury position. The goal is to bring the bank's daily cash position to zero. If we are *long* cash, we lend it overnight to some other bank; if we are *short*, we borrow."

"How much on average?" I ask candidly.

"Generally something between 5 to 15 billion French Francs[1]".

I try not to show how impressed I am.

"So, the name of the game," she says, "is to borrow as cheaply as possible and to lend as expensively as you can. See this number here on the screen? It's the average lending rate for the previous day. This is the index you have to beat: borrow below average and lend above, at the end of each day, when the number gets published, you'll know if you got it right!"

"Look" she says, "today we are 9 billion short. The screen here says 3.36 – 3.41,[2] this is a quote from a market maker,[3] which means that he has to serve you at these prices when you ask him. He will borrow from you at 3.36 and lend to you at 3.41. But let's see if we can get a better price from someone who has the opposite position to ours." She starts working the phones and in a few hours has almost closed our treasury gap at an average of 3.37. At the end of the day, the Banque de France publishes the O/N average at 3.39. Helen calculates the P&L. "We borrowed at an average of 3.37 versus a market average of 3.39. Now, you have to know that 1 basis point (bp)[4] per day per million costs 0.28 FRF in interest.[5] So today we did 2 bp better than the market, which applied to 9 billion, means a P&L of 2 x 9,000 x 0.28 equals 5,040 FRF. This is not much, but this is only the difference between your index and your performance. The

[1] 15 billion FRF = €2.3 billion.

[2] All prices are in percent per annum interest rates.

[3] A *market maker* is a market participant who has committed himself to always quoting a *bid* and an *ask* price to anyone who asks for a quote during market hours.

[4] 1 basis point is 1/100 percent = 0.01%

[5] 1,000,000 × 0.01% / 360 = 0.277778

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real cost for the bank of borrowing these 9 billion at 3.37 is 9,000 x 337 x 0.28 equals 849,240 FRF. Now you understand what is at stake here." I am awestruck.

Then Helen engages in a lengthy explanation of the hardware: four computer screens and a complicated phone system with 2 handsets. On the screens, numbers in a range of colors providing real time information on the stock market, bond futures, exchange rates and commodity prices. This is complemented by a spreadsheet for pricings and by the famous Reuters news screen. The phone system is even more impressive. It has a touch screen which can hold up to 100 programmable phone numbers. On both sides are two "boxes" as the traders like to refer to the six small speakers on either side. These are dedicated always-on lines used to communicate with brokers. The handsets also have a peculiarity; they have a little red button which prevents the other party from hearing you if you do not press it. The red button, I would later find out, is most welcome when you are engaged in an arbitrage operation with two counterparties at the same time. The people not familiar with these devices, such as my friends not working on the markets, always wondered why they sometimes could not hear me.

Helen shows me the job for a week, and then I am on my own. Here I am sitting, master over four screens and two phones with the mission I was given that day of raising 6 billion FRF in the overnight (O/N) market. A glance at my screen tells me that O/N is quoted 3.40 – 3.45 by the market makers. I need to find a better offer than 3.45. I pick up the phone and talk to René, one of the oldest brokers in the place.

"René, how is O/N trading?"

"3.42 – 3.44" I hear René's slightly rusty voice in the box.

I throw a quick hesitant glance at Christine. She nods.

"How much can you give me at 3.44?" I ask him.

"Let me check the offer and come back to you"

René is talking to the other bank that is going to check what credit limit they have with us before coming back with an amount. At the same time, I am waiting, my hand tightly gripped to the phone, the headset pressed against my ear, listening into the silence at the other end of the line. I feel hot and my heart is racing.

"I have 700 million for you," René interrupts the silence.

"Ok, mine." I say as calmly as I can while I think to myself: "700 million changing hands with one phone call; this is not the real world!"

"The BNP is lending you 700 million francs at 3.44 overnight."

"Ok, I'm borrowing 700 million at 3.44 from BNP," I repeat religiously to make sure we agree on all the details of the transaction, while writing them down. I put down the phone and notice that the palm of my hand is sweaty. I take a deep breath and lean back in my chair with a mixed feeling between relief and satisfaction.

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