State of the Capital Markets 2025

REPORT

ANALYSIS

In short Please find this year's **AFM State of the Capital Markets**. Investors make investment decisions based on expected future returns. Economic developments, the level of interest rates and future expectations are still important factors that determine price formation. However, there are other factors that influence the price formation process in today's capital markets, especially in the short term. Sudden changes in sentiment due to political developments, price developments of correlated instruments and directional messages on social media are just a few examples of elements that can have a direct price impact. This version of the State of the Capital Markets contains a number of images that provide insights into the **price formation process** based on current data.



Asset class: Equity Figure 1. Time 'at the touch' top 1, 3 and 5 firms



Asset class: Equity Figure 2. Concentration and spread



What does the data show?

This chart displays the market share at the touch for the top 1, 3, and 5 trading firms, ranging from the least traded shares to the most actively traded ones.

What does it imply?

On average, the top firm is at the touch 31% of the time, the top three firms 58% of the time, and the top five firms 73% of the time. Generally, as trading activity increases, market share concentration at the touch decreases across all three measures. However, this trend reverses for the most heavily traded shares, which exhibit increased concentration among the top firms.

What does the data show?

The concentration of firms "at the touch" in shares — that is, those offering the best bid or best offer—is positively related to the spread of a stock.

What does it imply?

Intuitively, competition among firms encourages them to outbid each other on the buy side or undercut each other on the sell side, leading to a narrower spread (the difference between the best offer and best bid prices). Therefore, the more firms participate in this process, the tighter the spread tends to be.

Asset class: Equity Figure 3. Value 'at the touch' during trading



What does the data show?

This chart shows the median value at the top level of the order book throughout the trading day for shares in the three Dutch indices: AEX, AMX, and ASCX.

What does it imply?

The chart shows that large-cap shares tend to have significantly higher values at the top of the order book compared to smaller-cap shares. For instance, AEX shares typically show values around four times higher than AMX shares, and five times higher than ASCX shares. Within the AEX index, there is a clear upward trend in order book value throughout the day, with a slight dip in the early afternoon. This upward momentum resumes after the U.S. markets open.

Asset class: Equity Figure 4. Nationality counterparties Dutch shares



Source: Euronext, shares in December 2024

What does the data show?

This chart shows how the trading in shares has been internationalized in the current market landscape. The trading firms are clustered per country. Reported retail transactions have been categorized separately.

What does it imply?

Most trading in Dutch shares is by non-Dutch entities. British firms carry out the majority of transactions on the AEX, AMX, and ASCX indices. On average only 17% of the trading in AEX share are by Dutch trading firms. For regulatory obligations, licensed trading firms have to fulfil their obligations with the NCA in which they applied for the license. This makes international cooperation between European regulators essential.

Asset class: Equity

Figure 5. Percentage value traded in the Close increases



ADYEN, ASML, SHELL, PHILIPS

What does the data show?

This figure shows the percentage of traded value during the Open, Regular Trading Hours, and Closing Auction on Euronext Amsterdam. We observe an upwards trend in the share of trading taking place during the Closing Auction, with the percentage in the Closing Auction in 2025 (until now) being almost 10 percentage points higher than in 2020.

What does it imply?

This represents a significant rise over just the past four years. It is particularly interesting because the Closing Auction is where genuine supply and demand meet the market, whereas during regular trading hours, volumes are also partially driven by day trading and speculation, which do not necessarily reflect true underlying demand and supply.

Asset class: Equity Figure 6. Difference between last and auction price



Source: MiFIR data, share ING

What does the data show?

Despite the increase of volume in the Closing Auction, the difference between the last traded price and the auction price has been stable over the last few years. This chart is a sample of the share ING, which is a representative stock in the AEX index.

What does it imply?

Not only in the Netherlands, but also in other EEA jurisdictions, trading moves more and more to the close of the trading day. Besides the increase in volume of the closing auction, also the last trading hours of the day attracts more investors, also because American markets are open as from 15.30 CET. During the 5 minute auction period, large orders do have a temporary impact on the price, but eventually these large orders seem to be absorbed by the market, leaving a relative small impact on the auction price.

Asset class: Equity Figure 7. Execution Retail Orders

- The largest 4 venues were responsible for 90% of the execution of retail order

● <45%

10-20%

Each dot is a venue (85 in total) during one month of trading. The colours respond to trading activity:



Source: MiFIR data

<2%

No activity

What does the data show?

This graph shows the venues where retail orders are executed. This image is a sample of one month of trading (January 2025) in one of the major bluechip stocks. Out of 85 venues included in this sample, 38 showed actual trading activity. The largest 4 venues were responsible for 90% of the execution of retail orders. Where almost half of the retail orders were executed on one RM, and almost 40% of the orders were executed on (foreign) MTF's.

What does it imply?

A relatively small part of the retail orders were executed via a Systematic Internaliser. For trading firms and -venues, so-called uninformed retail orders are attractive. This leads to competition between venues to attract these stream of orders, often in alliance with the commitment of trading firms.

Asset class: Equity Figure 8. Intraday price movement decreases in relation to interday change



What does the data show?

We express intraday price movements as the ratio between intraday closing price changes and the intraday price movements. Accumulated intraday price movements are the result of comparing every trading price with the previous trading price and summing the absolute values of these price movements. Here we compare these intraday price movements with interday closing price changes. This ratio falls between 0 and 1 (absolute summed intraday changes are one directional and equal to the interday change).

What does it imply?

The lower the ratio, the more two-way trading takes place in relation to the actual direction of the share price. This means that market participants have more possibilities to absorb the actual price movement in their trading activities (i.e., 'liquidity'). The graph shows that the liquidity in the AEX is superior to AMX and AScX, but has decreased over the last five years.

Asset class: Derivatives Figure 9. AEX Difference Open - Close - Open



Source: MiFIR data

What does the data show?

This graph shows the rolling 10 day average difference in points between the Open and Close of the AEX and the (overnight) Close and Open. The timeframe for this graph is one month, from half March to half April 2025. Given the market turbulence in the beginning of April due to the announced import tariffs, most of the significant pricemoving factors originated in the US.

What does it imply?

One could say that the priceforming process was highly impacted by the geopolitical developments in the beginning of April. This led to large price moves outside the European trading hours.

Asset class: Derivatives Figure 10. Correlation AEX vs AEX ETFs long term



What does the data show?

ETFs on indices are popular investment instruments which equal the performance of an index with the benefit of the tradability of shares. Especially in the US, ETFs are very popular with retail investors. The ETFs on the S&P 500 are among the most liquid derivative instruments in the world. The supply and demand in those ETFs at times even determines the price of the underlying shares of the index.

What does it imply?

For longterm investors, correlation between ETFs and indices turns out to be nearly 100%, and this explains the popularity of the instrument under investors.

Asset class: Derivatives Figure 11. Correlation AEX vs AEX ETFs short term



What does the data show?

During an average trading day, the traded price of an ETF may deviate from the value of the correlated underlying index. This deviation is irregular, but the trend line does correspond to the index price.

What does it imply?

The price of the ETFs is primarily driven by retailorders, which interact with liquidity providers. The value of the index is frequently calculated based on the price of the index shares. The ETFs only result in a datapoint when there is a transaction.

Asset class: Commodities Figure 12. Dutch TTF gas and CO₂ emission prices over time



What does the data show?

This graph shows the evolution of Dutch TTF gas prices and EU $\rm CO_2$ emission allowance (EUA) settlement prices over time.

What does it imply?

The data implies that both gas and carbon settlement prices exhibit fluctuations, but they do not always move in tandem. Periods of divergence suggest differing drivers behind gas market and carbon market dynamics.

Explanation

The TTF gas settlement price reflects supply and demand dynamics in the European gas market, influenced by factors like weather, storage levels, and geopolitical events. The EUA settlement price represents the cost of emitting one tonne of CO_2 and is driven by EU climate policy and industrial demand.

Asset class: Commodities Figure 13. Correlation between TTF and CO2 prices



While energy prices and carbon costs can be related (e.g., through fuel switching or economic activity), this graph suggests that their price trends are not perfectly aligned, indicating a more complex relationship.

Asset class: Commodities Figure 14. Investment funds position in 2024 -TTF Gas Futures



Source: MiFIR data

What does the data show?

This chart shows the net (i.e., Long minus Short) derivative positions in TTF Gas Future Contracts traded on ICE Endex, categorized by sector. These positions are calculated using the monthly average of daily aggregated position. The unit of measurement is MWh, adjusted by the relevant price multiplier. A large positive number indicates a dominance of long positions within the respective sector group.

What does it imply?

A clear directional trend in investment funds' trading strategies becomes apparent in TTF futures starting from late March 2025. The maximum net position is reached at the end of November, just below 290 million MWh. These long positions are balanced by short positions held by banks, investment firms, and commercial entities.

Asset class: Commodities Figure 15. Hedging strategies positions in 2024 - TTF Gas Futures



What does the data show?

This chart shows the net (i.e., Long minus Short) derivative positions in TTF Gas Future Contracts traded on ICE Endex. Positions are classified as either held by Investment Funds (speculative) or by Commercial Entities hedging their physical spot market exposure (hedging strategies). A large positive number indicates a dominance of long positions over short positions. However, a large positive or negative value does not necessarily imply greater market participation—rather, it reflects an imbalance in positioning toward long or short.

What does it imply?

This chart is a subset of the previous one, focusing on two specific trading strategies. This figure shows that directional strategies in hedging can be equally important when evaluating market trends as the directional strategies from funds.

Asset class: Fixed income Figure 16. Repo rate of cleared vs bilateral transactions



What does the data show?

This chart shows the median repo rate for centrally cleared and bilateral transactions over time. In cleared repo transactions, a central counterparty inserts itself between two counterparties and becomes the new counterparty in both legs of the transaction (novation). Some of the negative spikes may be due to issues with data quality. On year end, and to a lesser extent on quarter ends, negative spikes in rates are due to balance sheet scarcity of dealers around reporting dates, resulting in temporary lower market intermediation.

What does it imply?

Firstly, the repo rate is mainly influenced by the central bank policy rate (for the deposit and lending facilities), which acts as an anchor point. Multiple rate reductions by the central bank are therefore also visible in the repo rate. Secondly, the repo rate for cleared transactions is not much different than for bilateral transactions. Costs and benefits of centrally clearing repo transactions (netting exposures, exchanging margin etc.) do not seem to lead to a large spread in the repo rates between both transaction types.

Asset class: Fixed income Figure 17. Placement of state loans with Primary Dealers



Source: MiFIR data

What does the data show?

The Dutch State Treasury Agency is responsible for the placement of the Dutch State Loans. For this purpose, there are 13 Primary Dealers selected who have quoting obligations. This gives the Dealers the opportunity to be in competition to take up the DSL's in the primary market. This graph shows that not all 13 PD's are in competion in the primary market. There is a significant difference between the top 6 and the other Dealers.

What does it imply?

The Dutch State Loan Agency uses a duration weighed system to rank the Primary Dealers. The goal is to trigger the PD's to cater for a liquid market and to create a balanced supply and demand for the diverse durations. This ranking explains the differences in the stake of the several PD's as shown in the graph above.

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