Triangular Arbitrage: What is It?

What is Arbitration?

FIX API arbitration is a type of trading strategy, which suggests to search for exchange differences on various stock exchanges. To put it simply, this strategy enables to analyze whether there are discrepancies in the prices at different brokers or market players, and to trade in the direction of the exchange rate difference.

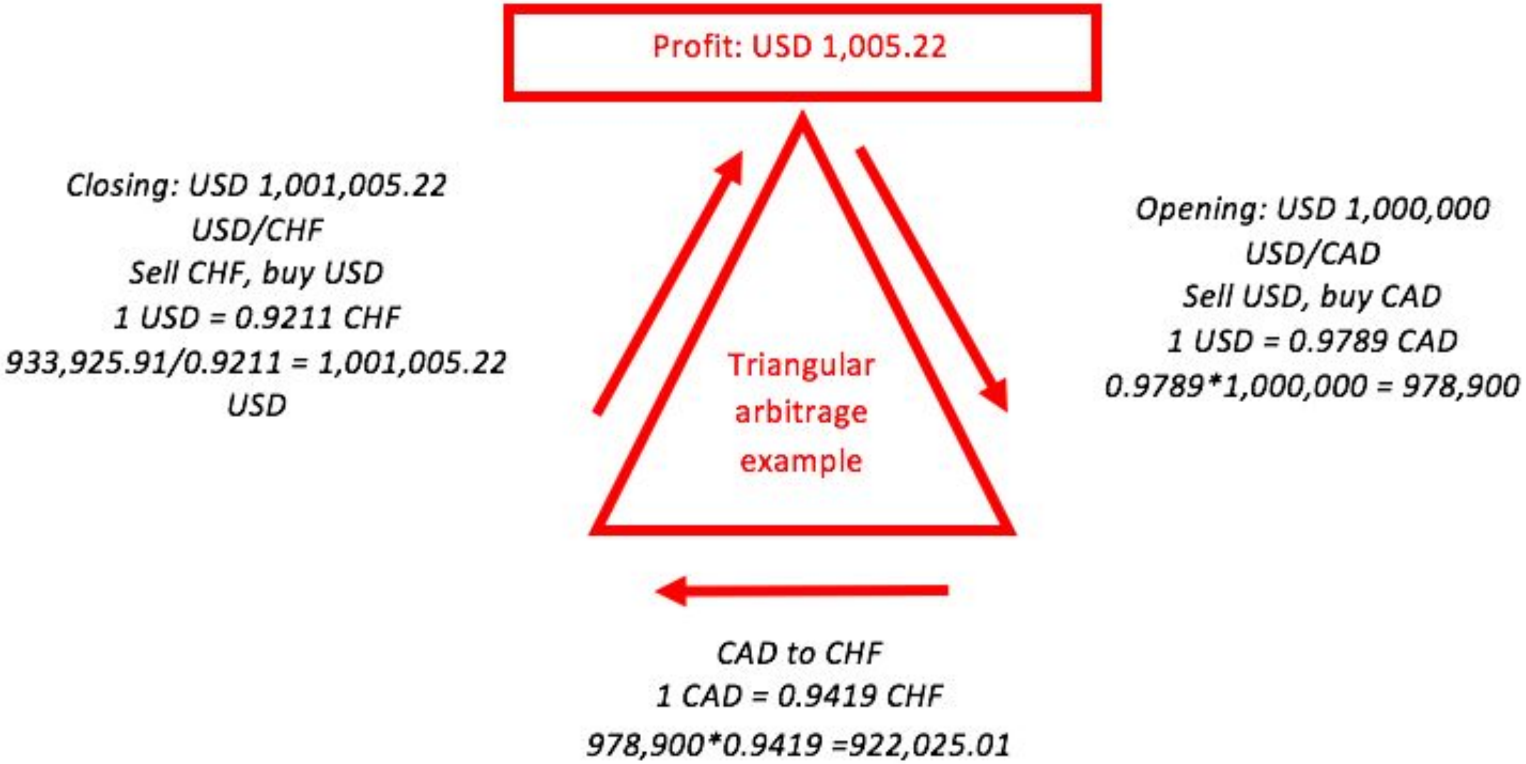
Types of Arbitrage Trade

- Latency Arbitrage
- 2-Leg Arbitrage
- Triangular Arbitrage

What is Triangular Arbitrage?

Triangular arbitrage is a type of arbitrage trade, the essence of which is in opening positions on three financial instruments. This technique consists in finding rate inconsistencies in bids between different players on the market, or even different stock brokers.

Example of Arbitration Triangle



Benefits of the Triangular Arbitrage Strategy

- Diversification of exchange differences;
- Risk minimization;
- There are practically no risk of operation drawdown, since the transactions execute instantly;
- There is a significant difference in the value of assets between trade participants (in the example above, the difference was 4 points, and in practice there are cases with the margin up to 20-30 points) that increases the potential yield.

Disadvantages of the Triangular Arbitrage Strategy

- Use of slow software can lead to performing operations on irrelevant prices, which increases the risks.

Conclusion

To sum up, I would like to note that the strategy allows to optimize trading and increase the yield from speculative transactions. Moreover, the use of special software allows to reduce risks down to zero, which, in turn, will increase the financial result of trading.