

Various exchanges offer mimics of CME Eurodollar futures. The main enticements they hawk to prospective contract users are that (i) the best bid/offer spread in the market for the look-alike futures is as tight as in the market for the corresponding CME futures, and (ii) the applicable transaction and clearing fees are pitched at bargain levels.

Lost in the clamor is that a tight bid/offer spread is only as good as the volume tradable at the best bid or best offer. Worse, ***a patchy order book is apt to rack up trading costs far greater than any savings to be found in exchange fee differentials.***

Exhibit 1 illustrates for First Red Eurodollar futures (in early September 2011, the Sep2012 futures delivery month) listed at CME and, lately, NYSE Liffe, during the six weeks from Monday, 1 August, through Friday, 9 September. In the representative (median) instance, ***a trader at CME could transact over 2,000 lots entirely at the best bid or offer, while a trader attempting the same in the NYSE Liffe mimic would have blown through the four best price levels on the resting side of the order book.***

To see what this means in terms of cost, assume the two traders pay customer (non-member) exchange fees, and assume each bid or offered price level is separated from its neighbors by one half of one tick, or \$12.50 per contract (the contract minimum price increment). For the CME contract user, trading cost is limited to crossing the best bid/offer spread, or \$12.50 per contract. Adding the nonmember exchange fee of \$1.19 per contract makes an average all-in cost of \$13.69 per contract.

For the NYSE Liffe contract user, trading costs tally up as:

½ tick (\$12.50 per contract) on the first 637 lots,
one tick (\$25 per contract) on the next 505 lots,
1½ ticks (\$37.50 per contract) on the 425 lots at the third best resting price level,
two ticks (\$50 per contract) on the 380 lots at the fourth best resting price level,
and
2½ ticks (\$62.50 per contract) for the trailing 53 contracts.

The resultant weighted average trading cost, \$29.42 per contract, combined with the NYSE Liffe nonmember exchange fee of 45 cents per contract, brings the average all-in cost to \$29.87 per contract – ***well over twice the all-in cost of trading the CME contract.***

Exhibit 1 – Order Book Depth for Eurodollar Futures
(Median Values, 1 August to 9 September 2011)

	CME	CME Cumulative	NYSE Liffe	NYSE Liffe Cumulative
1 st (Best) Bid/Offer	2,082	2,082	637	637
2 nd	5,976	8,058	505	1,142
3 rd	1,477	9,535	425	1,567
4 th	892	10,427	380	1,947
5 th	806	11,233	319	2,266

Suppose you perform the same exercise, several times each US trading day (specifically, every 10 seconds between 8am and 5pm ET) during the same six-week interval, to compare all-in costs of filling a more modest 1,000-lot market order. Three conclusions emerge:

(1) For those paying exchange fees at member rates, the typical all-in cost for CME Eurodollars is around \$13.25 per contract. For the NYSE Liffe mimic it is nearly \$19 per contract, 44 percent more expensive. (See Exhibit 2.)

(2) For those who pay nonmember exchange fees, the typical all-in cost at CME is under \$14.25. At NYSE Liffe it is around \$19.25 per contract, 36 percent more expensive.

Exhibit 2 -- Median Trade Cost Comparisons for Eurodollar Futures
(1 August to 9 September 2011, Daily, 8am to 5pm ET)

	CMEG	NYSE Liffe
Member	13.21	18.97
Nonmember	14.14	19.26

(3) ***The CME Eurodollar futures order book is not merely deeper and less costly to the user, but also more consistent in these virtues.*** For a 1,000-lot market order in CME First Red Eurodollars, all-in cost per contract seldom strays day to day from the median values shown in Exhibit 2. Because the order book for the NYSE Liffe mimic contract is both shallower and less stable, however, the effective all-in trading cost may

vary significantly from day to day. As Exhibit 3 dramatizes, the relative stability of effective cost benefits all users of CME Eurodollar futures, irrespective of whether they pay exchange fees at member or non-member rates.

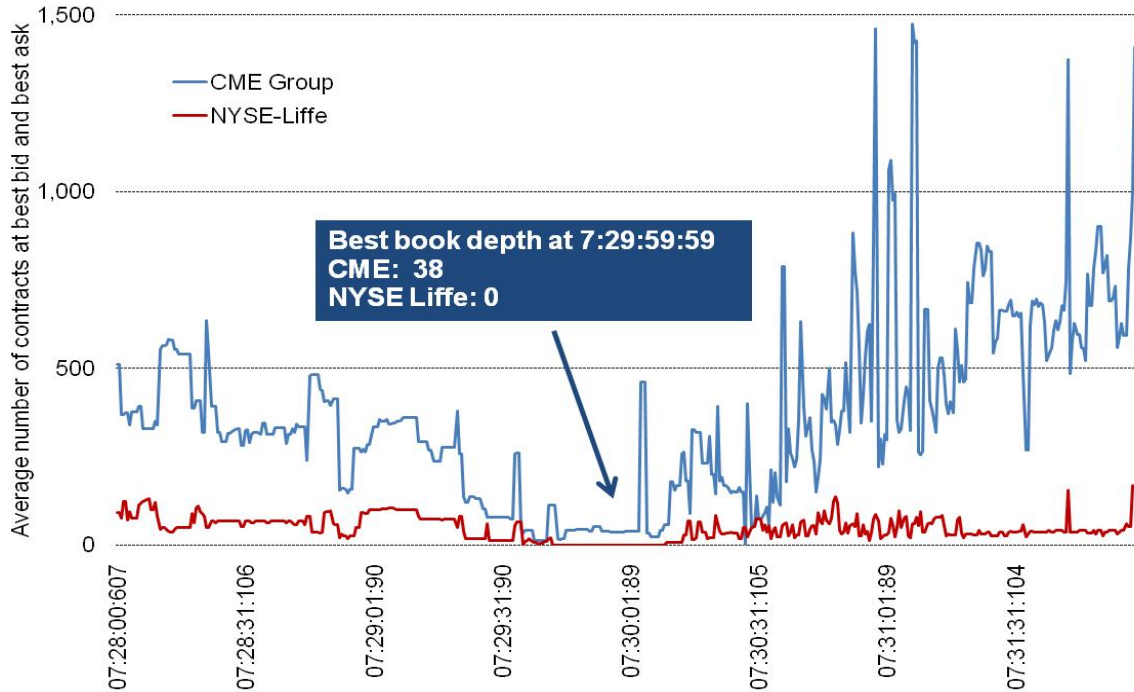
Exhibit 3 – Daily Average Cost Comparison: 1,000 First Red Eurodollar Futures
(1 August to 9 September 2011, 8am to 5pm ET)



Managing risk in volatile markets: Run toward the gunfire, not away from it. A telling measure of central limit order book’s integrity is how well it functions in a fast market. Exhibit 4 exemplifies for CME First Red Eurodollar futures versus NYSE Liffe mimics, by way of a second-by-second comparison of resting quantities at best bid/offered price levels during the four minutes bracketing the US Labor Department’s employment report on Friday, 5 August 2011.

For a span of several seconds before and after the headline hits, actionable quoted amounts in the NYSE Liffe order book have zeroed out, whereas the CME order book maintains at least modest actionable quantities throughout. More dramatic is the CME order book’s speedy resurgence following the headline print. Within a minute, resting amounts at best bid/offered price levels have returned to around 500 contracts -- an order of magnitude greater than resting amounts in the NYSE Liffe order book.

**Exhibit 4 – Monthly US Employment Report, Friday, 5 August 2011, 8:28-8:32am ET
Depth of First Red Eurodollar Futures Order Books at Best Bid/Offer**



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Data source for all calculations and graphics in Exhibits 1, 2, 3, and 4 is Bloomberg LP.
 Three-Month Eurodollar futures are listed with, and subject to the rules and regulations of, the CME.

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