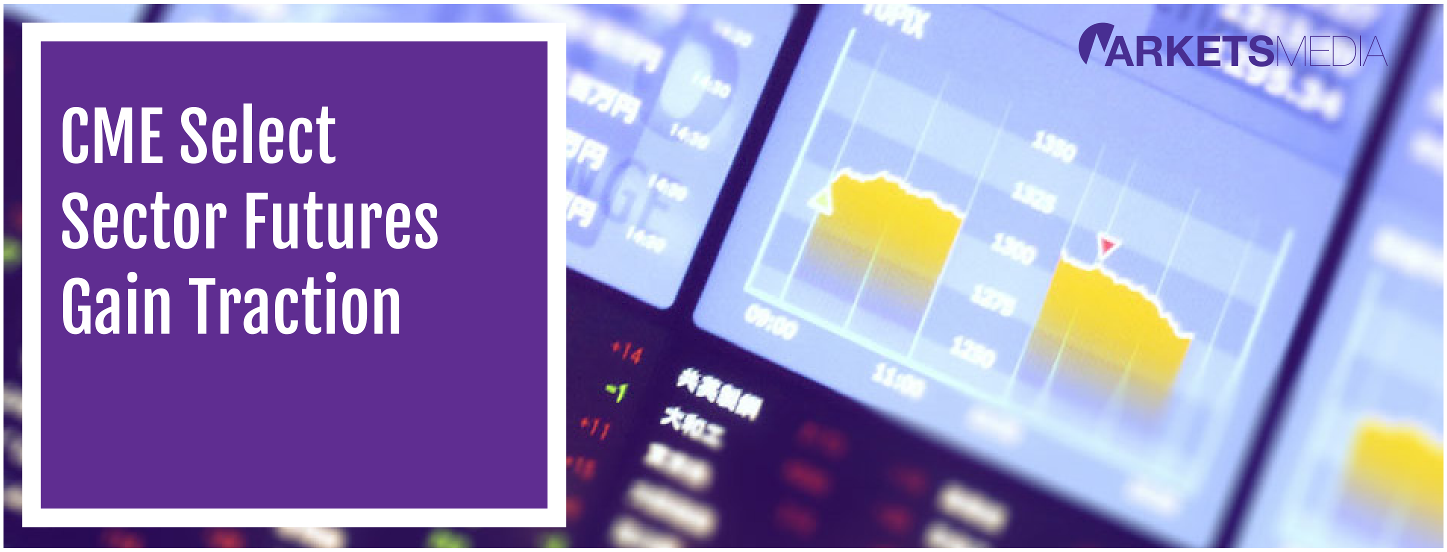
CME Select Sector Futures Gain Traction



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CME Group created E-mini S&P Select Sector Index futures at the request of a few customers to provide a sector-specific tool for better risk management. However over the past year or two, the broader market has embraced the product suite and the popularity of usage continues to climb.

Just recently, on March 19, 2014 a new record was established across the Select Sector Futures with an outstanding Open Interest of $1.228 billion notional.

“As we continue to see both open interest and ADV increase in this product, we want to make sure that all of our customers are aware of the growth and the benefits that the contracts provide over the alternative sector trading vehicles,” said Richard Co, executive director in CME Group’s equity group. “We want to make sure that customers are aware that these contracts can be executed in a multitude of ways that can help with risk management.”

CME’s customers can trade sector exposure electronically through Globex, through a traditional block transaction or via the Basis Trade Index Close (BTIC) block mechanism. “We want them to know that they can not only manage their risk more efficiently with CME US Select Sector Futures, but can also manage their risk more confidently with our CME products and the financial safeguards provided by the CME Clearing House,” Co said.

The investment strategies most commonly employed with Select Sector Futures include Sector Rotation, which is the under or overweighting of certain sectors within a broad-based index as an overlay to their core exposure.

The ability to combine sectors, or express sector specific views introduces more opportunities for arbitrage strategies versus the parent index, a basket of stocks or even the corresponding sector ETF.

“Certain investors will trade US Select Sector futures outright as they go long or short the sector exposure, where the futures can offer more flexibility, because unlike ETFs or a basket of stocks there are no single stock locate requirements or short selling prohibitions/restrictions on the Select Sector index futures,” said Tim McCourt, executive director in CME Group’s Equity Group.

Investors are increasingly using the Select Sector Futures as part of their funding and balance sheet maintenance.

Like all CME Futures products, the Select Sector Futures are EFRP [Exchange for Related Positions] eligible, and an EFP can be executed against the corresponding ETF or basket of stocks, as prescribed by CME rules, McCourt noted.

Select Sector Futures are a set of nine financially settled futures contracts where the underlying index is one of the nine S&P 500 Select Sectors.

CME Select Sector Futures offer a way to obtain exposure to the performance in the individual sectors that constitute the S&P 500 Index. “They are benchmarked to and settle to the same S&P Select Sector Index that the popular S&P Select Sector SPDR ETFs track,” Co said.

As is the case with all CME Equity Index Futures, Select Sector Futures enjoy the usual 60/40 tax treatment as well as a favorable margin/leverage ratio. The US Select Sector Futures on average require approximately 5% Initial Margin, which implies a leverage ratio of 20:1.

“Select Sector Futures are margin offset eligible and those traders or investors who are running a broad based index versus sector specific strategy can benefit from an even more efficient use of capital by trading holistically in CME products,” said McCourt. As of February 2014 this margin offset between US Select Sector Futures and the E-mini S&P 500 Future was 60%.