PUBLISHED Q3 2020

The FX Report

Solving market challenges

FX Futures

FX Options

FX Link

EBS

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IN THIS REPORT:

IN THE MARKETS

A quarter of parts – pandemic, participants, progress, and solving market challenges

By Paul Houston, Managing Director, FX Products

This quarter saw much lower volumes across the FX market, relative to the excitement of the first quarter. The impact of zero interest rates, working from home, and the market-wide deleveraging combined to dampen activity. Despite this, the FX team at CME have been active across a number of initiatives, aiming to ensure our products continue to be as accessible, efficient, and cost-effective as possible.

In particular, in this edition we have highlighted new analytical tools, which are aimed at bringing both greater transparency to the marketplace – as well as providing richer information to participants to aid their decision-making.

The first of these is the **CME Swap Rate Monitor**, launched this quarter and available for free on cmegroup.com. This tool shows: (a) current and historical access to FX Link pricing, which is potentially an important transparent data source for customers given the OTC FX swap market has no central primary pricing CLOB and (b) combines FX futures and FX Link pricing to calculate implied interest rate differentials across currency pairs – highlighting areas where investment and trading opportunities could be executed using FX Link as a trading mechanism.

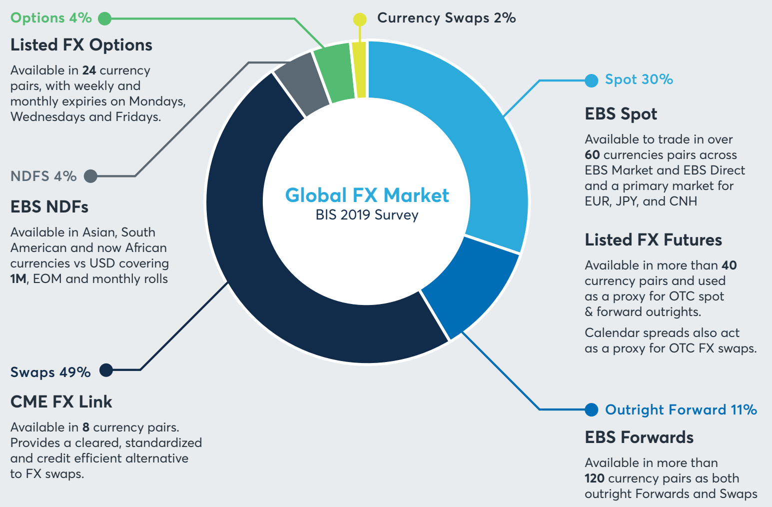
The second is the **CME OTC Vol Converter Tool**, scheduled for launch in September and currently in pilot with a number of customers. This tool displays CME listed FX options in an OTC equivalent volatility surface across the G5 currencies. It offers numerous rich functionalities, including tradeable bid/offer spreads with drilldown to the underlying CME contracts.

A huge amount of resources and effort has gone into creating these tools, and we hope you will find value in learning more about them in our report. This edition also features the upcoming plans for EBS. EBS Market has a prominent role in the spot FX market, and the Q&A interview with Jeff Ward outlines the details and decisions behind these changes. I would like to wish everyone the very best, and thank you for the continued support of CME FX products.

Now, whichever instrument you trade, you can do so with the certainty of CME Group.

CME cash and listed FX products offer absolute and additional liquidity to bilaterally traded FX swaps, options, spot, forwards and NDFs.

NEW: VOL CONVERTER TOOL
Launching Sept 2020



NEW: FX SWAP RATE MONITOR
Live June 2020

Data: Percentages according to 2019 BIS Triennial Survey, based on foreign exchange turnover
Expirations or availability of currencies may only be available on certain currencies or platforms

More than a product:
A source of reliability in market stress

H1 2020: Averaged

$83.2bn notional traded in Futures and Options

$80.0bn traded in Spot on EBS

$232bn in Open Interest in Futures and Options

IN THIS REPORT:

IN THE NEWS

A view on G5 – volatility, event risk, opportunity

By Erik Norland, Senior Economist

In Q2 2020 the biggest currency pairs traded quietly, with little movement in either EUR/USD, which rose 1.8% versus the US dollar, or USD/JPY, which was nearly unchanged. Brexit negotiations weighted on GBP, which fell by 1% versus USD and by 3% versus EUR, a small move by historical standards. As the coronavirus receded in China, offshore renminbi strengthened by 1.5% versus USD.

The real action was further afield. As China and other nations reopened their domestic economies, commodity prices recovered from their lows, pulling CAD 4% higher versus USD while AUD rallied 12% over the course of the second quarter.

While currency movements were generally quite small during the second quarter, options traders appear concerned about the prospect for future volatility. Implied volatility on many of the currency options was about one-third higher at the end of June 2020 than it had been pre-pandemic. There are a variety of factors that may be of concern to currency market participants including:

1. **Divergent pandemic outcomes:** The coronavirus pandemic appears to have receded in some countries, while new cases continue to rise in other countries. How might it impact the currency markets if some countries move towards a second lockdown while others do not?
2. **The possibility of divergent monetary and fiscal policies:** Among the major currency pairs, fiscal and monetary policies were remarkably similar in Q2. Most central banks cut rates towards zero, if they weren't there already, and expanded their balance sheets. Fiscal policy also saw increases in public spending and deficits to offset the impact of social distancing. Going forward, fiscal and monetary policies may begin to diverge as different currency areas curtail the exceptional measures more quickly than others. This may be particularly acute if some countries opt for renewed lockdowns while others do not.

Read, watch, and listen to more insights from Erik Norland and Blu Putnam, our Chief Economist >

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IN THIS REPORT:

IN OUR MARKETS

Fulfilling demand for transparency in swaps, options, (and quotes) with new analytical tools

Swaps: Get to know the FX Swap Rate Monitor – live since June 2020

The OTC FX swap market, according to the latest BIS survey, trades $3.2 trillion daily. Despite this volume, there is no primary market that offers a firm, central OTC pricing source. FX Link addresses this by providing a firm CLOB tradeable spot starting IMM swap across eight currency pairs, traded and cleared on CME's markets. With the recent launch of CME FX Swap Rate Monitor, which displays FX Link pricing in a current and historical view, participants have access to a public reference FX swap rate – for the first time ever, at no charge. This new tool also combines FX Link pricing with FX futures pricing to calculate implied interest rate differentials across the eight currency pairs – available in a current and historical view and highlighting potential investment opportunities.

Since the product launch, many participants have signed up to use the tool, available now on cmegroup.com.

Get to know the tool, the calculation, and read about different ways it can be applied.

FX SWAP RATE MONITOR TOOL

FX Swap Rate Monitor Tool

LIVE – June 1, 2020

PROGRESS – Over 700 views

FOLLOW – Market information on FX swap pricing and daily changes, delayed only by 10 minutes

VIEW – Implied interest rate differentials for eight currency pairs as they develop

IDENTIFY – Potential areas of opportunity using FX Link

Sign up and see >

Options: Introducing the Vol Converter – launching Sept 2020

For the first time, traders will be able to compare listed FX options and OTC FX options in one screen – bringing a unique level of price transparency and comparability.

This new tool will calculate and convert listed CME FX option premiums, fixed strike data, rules, and formats – into an OTC-equivalent volatility surface, in OTC standard tenors, deltas, and quote conventions – creating comparable pricing across major options pairs.

Vol Converter Tool

LIVE – September 2020

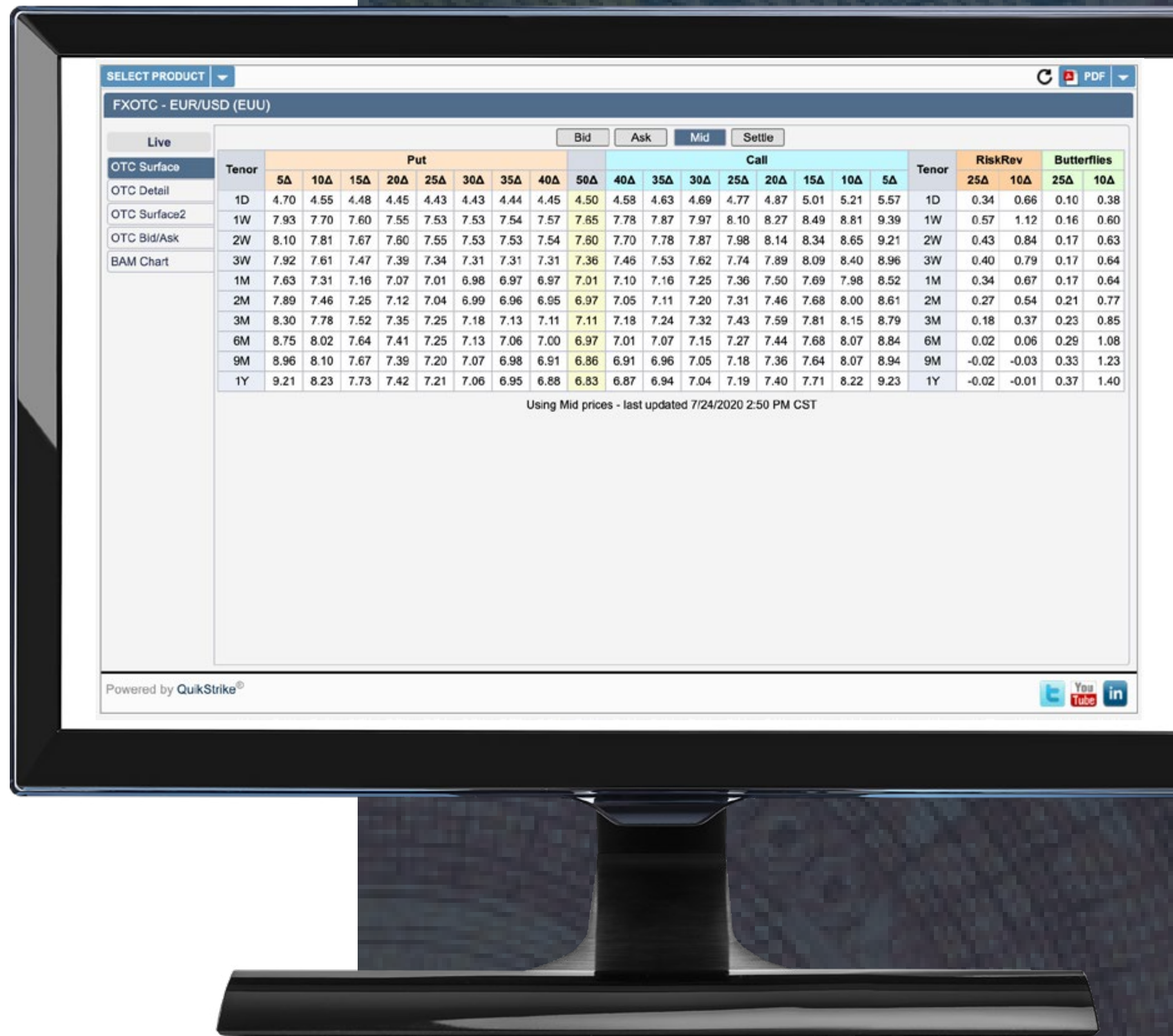
EVALUATE – OTC-equivalent pricing across eight tenors and a full delta surface

DISCOVER – The underlying CME contracts driving each value

ACT – On the optimal trade, with the ability to analyze price divergences in all deltas and all maturities

Bringing transparency to Request for Quote
See how our new Directed Request For Quote (DRFQ) functionality enables you to get more quotes easily, from more of your chosen liquidity providers >

VOL CONVERTER TOOL



USE THE FX SWAP RATE MONITOR, TRACK IMPLIED INTEREST RATE DIFFERENTIALS ACROSS EIGHT CURRENCY PAIRS >

IN THIS REPORT:

IN OUR MARKETS

Focused on reducing costs through product enhancements and programs

Enhancing FX Link: New functionality, built for better spread trading

Historically in order to transact on FX Link, a customer must trade directly into the Globex central limit order book (CLOB). C-Cross and RFQ functionality provides participants and liquidity providers with an alternative form of execution, enabling larger order sizes to be negotiated pre-execution and subsequently submitted through Globex. This method of execution is closer in nature to the existing OTC FX swap market, enables brokers to be used, and offers participants the ability to execute larger trade sizes by accessing additional liquidity that isn't immediately present in the order book.

> ***Read the SER: Live July 27, 2020 >***
> *An SER is a Special Executive Report – released by CME Group whenever there is a rule change to our products or markets.*

WHAT: Agree in advance size, price, and direction – prior to entering an order in Globex

HOW: BPVM (Better Price or Volume Match) percentages on all outright FX futures equal to 50%, in line with the current levels for all FX options

WHY: Standardizes CME's Globex crossing mechanism across the entire listed FX complex, enabling FX Link to be used as an even better proxy for bilateral FX swaps.

Find out more about this functionality, how it works, and how to take advantage of it >

Expanding options: Solving for the short end

In February, we expanded our short-term options to include Monday expiries. We now offer Monday, Wednesday, and Friday expiries. As the consequences of Covid-19 have been felt across the globe, the market has increasingly turned to these contracts in order to manage and express risk.

> *NEW: Everything you need to trade FX options >*

Notably, average daily volume in Mondays expiries increased by 107% in June compared to May.

> *NEW: Resources created specifically for intermediaries >*

As demand has grown, so has the range of solutions we offer – from more strikes, to more maturities, and aligning our expiries to the 10 a.m. NY cut. Now, we're making our markets more accessible to our network of intermediaries to help more participants use our centrally-cleared, capital efficient model – and more compelling to participants who need to express large risk transfer, contributing to all participants' TCA.

> *Manage risk with the new large trade fee reduction for FX options traders with large risk transfer needs. However you execute – the cost has been reduced by half for 12 months to help traders around the world manage risk.*
> ***Find out how to participate >***

SIGN UP FOR FX LINK VOLUME ALERTS, DELIVERED TO YOUR MAILBOX WEEKLY >

Analyzing the June roll: Assessing improved price discovery

Cost of execution improvement: EUR, JPY, CAD, and AUD were all quoted at .2 throughout the two-week roll period. EUR was at the MPI, approximately 99% of RTH, with JPY at the MPI, 90% of RTH. Both CAD and AUD were quoted at the .2 MPI, approximately 99% and 95% of RTH respectively. GBP was at .5, 96% of RTH.

Read more >
About how we have improved TCA, and how to consider the quantitative and qualitative factors that affect it

Efficiency of the roll: CME's Pace of the Roll tool indicates that the transference of open interest was above the historical average across nearly all of the G5 currencies, with EUR (85%) at 8% above the historical average, JPY at 78% (+7% vs. avg.), GBP at 77% (+5% vs. avg.), CAD at 78% (+10% vs. avg.), and AUD at 63% (-6% vs. avg.).

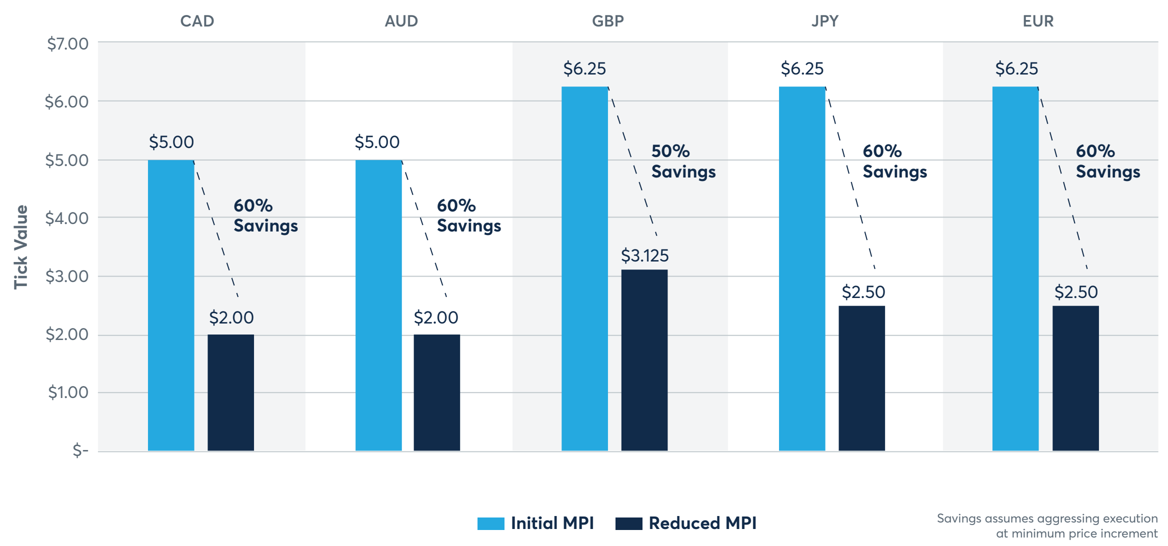
June Pace of the Roll: G5 Pairs

Pair	OI Rolled – Q2 2020	OI Rolled – Prior 4	Change vs. Average
EUR	85%	77%	+8%
JPY	78%	71%	+7%
GBP	77%	72%	+5%
AUD	63%	69%	-6%
CAD	78%	68%	+10%

Reducing the cost to trade: Reducing Minimum Price Increments

The backdrop of Covid-19, a move to SA-CCR for the calculation of counterparty credit risk exposures, and the Uncleared Margin Rules continue to bring attention to the potential costs and benefits of clearing for both FX FWDs and FX swaps. In response to client feedback, we have been reducing the minimum price increment for the quarterly roll in the G5 pairs by 50-60% in order to materially reduce the cost to trade, making the use of FX futures more cost effective than ever before.

Lower Cost of Execution with CME FX Calendar Spreads



The use of FX futures as a cleared derivative enables CVA charges to be removed as well as the netting of exposures and cash flows against CME – optimizing capital costs as well as operational workflows. In addition, the residual exposure attracts a much lower counterparty risk weighting for risk weighted asset calculations, a cost that can be relevant on a direct or indirect basis for some OTC FX transactions.

WATCH THE ROLL AS IT DEVELOPS, USE OUR PACE OF THE ROLL TOOL, TO HELP YOU ANALYZE YOUR ROLL STRATEGY >

IN THIS REPORT:

NEED TO KNOW

Futures and options: From G10 to EM

Key Stats

As the world reflects on the events of Q2 and the memorable activity across financial instruments and commodities, volume in our markets followed global trends as participants looked to express risk. Often turning to our markets to gain the price certainty and transparency they sought, and to find the liquidity they needed.

EUR/USD

Traded **$31.1B** in notional in H1, equivalent to **$219K+** contracts.

Open interest was up **12%** YTD, at **587,813**.

See the contract >

ASSET MANAGERS

Held **48%** of all open interest in EUR/USD.

Use this tool to explore Open Interest, using CFTC data >

AUD/USD

Traded **$7.19B** in notional in H1, equivalent to **107,849** contracts. YTD open interest averaged **149,198** contracts.

See the contract >

BUILT FOR EVENT RISK

Volume in Monday FX Options Expirations increased by **107%** in June over May.

Get the codes and get to know the expiries >

OPEN INTEREST

$9B across all Weekly options expiries: Monday, Wednesday, and Friday

Use this heatmap tool to explore open interest >

EM PAIRS

Volume grew to **83K** contracts YTD – driven by BRL up **54%,** ZAR up **80%,** and RUB up **41%.**

Follow the volume in our EM pairs >

FOLLOW THE VOLUME WHENEVER YOU WANT TO, ADD THE CONTRACTS YOU WANT TO WATCH TO MY PORTFOLIO >

IN THIS REPORT:

NEED TO KNOW

Spot, forwards and NDFs: The future has begun for EBS

A discussion with Jeff Ward, Managing Director, EBS, on future plans and the benefit and value it will bring to the market.

The integration of EBS Market onto CME Globex is the first step in bringing to market a cohesive offering across listed futures, options, and cash FX.

Q1 What are your plans for EBS Market, as a primary and central source of liquidity for so many OTC FX products, currencies, and customers?

A: EBS Market, our CLOB, will be integrated with CME Globex, with a distributed matching model in London and New York. Each engine will be a single source of global liquidity – in EM and G10 respectively. This new design enables us to fulfil one clear ask from the marketplace – to simplify. We'll do this by concentrating liquidity, decreasing the technology investment required to access it, and by reducing operational risk as books get passed from desk to desk.

Q2 And, as bilateral relationship trading evolves, will EBS Direct?

A: EBS Direct creates optionality for our clients. On this platform, we are retaining the existing order routing model, whilst re-platforming and upgrading the underlying technology and architecture to increase speed and flexibility – so we can keep meeting demand for this type of bilateral liquidity.

Q3 Credit challenges remain top of mind for many participants, can EBS help solve for this?

A: We're bringing to market an enhanced credit model, which will enable more efficient credit management, by enabling customers to share credit across our platforms, leverage Net Open Position Credit if desired, and to consolidate regional credit to a single global limit.

EBS remains on course to integrate EBS Market with CME Globex by the end of 2021

Find out more about EBS ›

Q4 What sets EBS apart from other OTC platforms?

A: We want to do more than provide best-in-class liquidity, we want to benefit participants through the development of additional tools in which they can analyze their own trading, fill ratios, liquidity providers – to better inform decision making. Quant Analytics does this, exceptionally. Again, we've looked at the technology, and we're making it even better. We're now thinking about integrating the EBS platforms with the existing CME offerings for FX futures, options, and listed and cash interest rates – creating complementary value with the tools already in place.

Q5 As markets change, are you seeing demand for your products from new and different clients?

A: EBS is synonymous with OTC FX. Our history established us at the heart of FX market structure, and for many interdealers, execution – from the key pad to the screen. We're seeing the asset management community increasingly make that same ask of us – with growing adoption of our EBS Institutional platform. Uniquely, this platform is designed for portfolio managers. Their needs have shaped every aspect of the build – from trade, to best ex, with built in pre-trade Execution Cost Analysis and post-trade TCA. It's interesting to see that 48% of OI in CME's EUR/USD futures is held by this segment, as this community increasingly turns to our complementary cash and listed solutions.

Q6 Finally, how would you summarize what the future of EBS will bring to market participants?

A: Our goal is to be as relevant for our clients in another 25 years as we are today by creating a platform for liquidity, analytics, and efficient risk management. Built to benefit all participants – from front to back office, from global banks to regional asset managers – by re-platforming, re-designing, and recognizing what the market needs.

Read more about the market view: Read Jeff Ward's interview with Colin Lambert, Managing Editor of *Profit&Loss* ›

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Find out more about blocks – **with this complete guide >**

Access our G7 futures markets as an asset manager – **and why others are >**

Use our options market as an intermediary – **and why you should >**

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