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CME FX Link

OTC FX and FX Futures, Linked

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Introducing Spot FX Basis Spreads at CME Group

CME FX Link is the first ever anonymous, automated central liquidity pool for efficiently managing a wide range of FX swap, forward and basis risk exposures.

CME FX Link provides a Central Limit Order Book (CLOB) on CME Globex for trading spreads between OTC FX Spot and CME FX futures, seamlessly connecting the two markets. It is traded as the differential between FX futures and OTC Spot FX, resulting in simultaneous execution of a FX futures contract and an OTC Spot FX transaction via a single spread trade. A central prime broker intermediates the OTC Spot FX transactions resulting from the spread, leveraging existing OTC FX credit relationships and supporting anonymity of trading.

There are eight major FX PBs live, with credit lines in place with major bank FX house entities. Initial scope includes spreads between OTC Spot FX and the front two serial and quarterly expiries in: EUR/USD, GBP/USD, AUD/USD, NZD/USD, USD/JPY, USD/CAD, USD/CHF & USD/MXN.

CME FX Link has been live since March 25 2018.

Since launch over **6,046,537 contracts** were traded, equivalent to over **\$577 Billion in notional*** with eight currencies live and active.

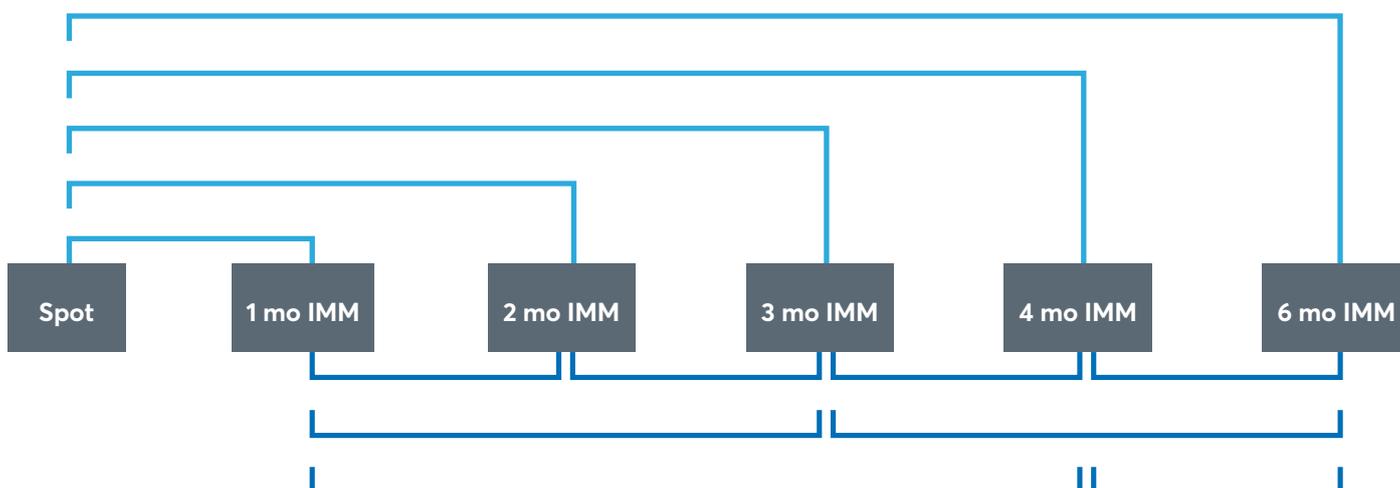
**All data correct as of close of Q2 2020*

Covering the Forward Curve

FX Link – together with FX Monthly and Quarterly futures – create a comprehensive, efficient, central liquidity source for managing various FX forward & swap exposures.

FX Link

Connects FX Spot and FX futures, with spreads from spot to four liquid IMM dates



Monthly FX Futures

Connects IMM outright and spread combinations covering active IMM forwards and forward rolls

Connecting the OTC FX Market & FX Futures via one electronically traded spread on CME Globex

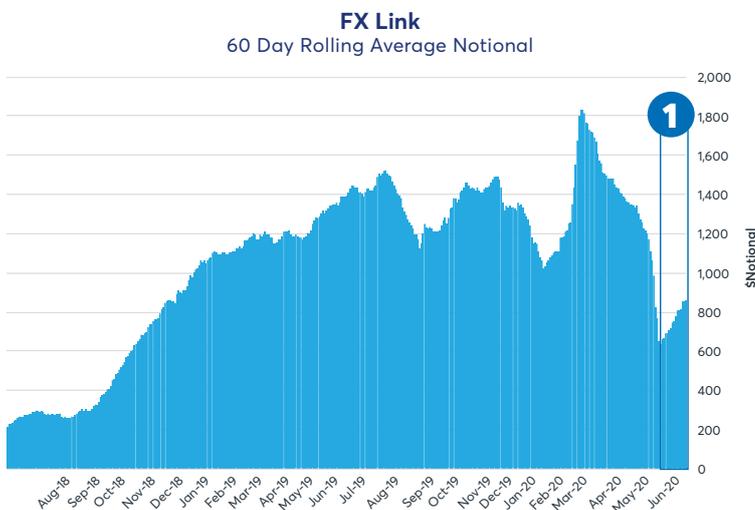
CME FX Link has been live since **March 25 2018**. Since launch, **6,046,537 contracts** have been traded, equivalent to over **\$577 Billion** in notional*, now with eight currencies live and active: EUR/USD, GBP/USD, AUD/USD, NZD/USD, USD/JPY, USD/CAD, USD/CHF, USD/MXN .

*All data correct as of close of Q1 2020

Take-a-look at our top-of-book:

Volume is growing in response to more participants utilizing FX Link than ever before – as a source of liquidity and a means to manage market event risk in a capital efficient way.

1. Volume is growing in response to more participants utilizing FX Link than ever before both as a source of FX swap liquidity and in managing their exposures across FX Futures and OTC FX liquidity pools.
2. Liquidity is building with top-of-book regularly 0.1-0.2 ticks wide and \$50-\$100M deep to better enable support of multiple FX execution strategies.
3. Liquidity coverage expanded. Follow the latest volume tracker: cmegroup.com/fxlink



Product	Description	Qty	Bid	Ofr	Qty
reads					
AUD/USD FX Link Spread	Jul20	80	0.0001	0.0004	100
AUD/USD FX Link Spread	Aug20	80	0.00012	0.00014	50
AUD/USD FX Link Spread	Sep20	10	0.00019	0.00020	505
EUR/USD FX Link Spread	Jul20	100	0.00011	0.00015	180
EUR/USD FX Link Spread	Aug20	180	0.00098	0.00102	180
EUR/USD FX Link Spread	Sep20	260	0.00169	0.00170	250
USD/JPY FX Link Spread	Jul20	130	-0.008	-0.005	100
USD/JPY FX Link Spread	Aug20	130	-0.058	-0.054	180
USD/JPY FX Link Spread	Sep20	250	-0.094	-0.093	298
USD/MXN FX Link Spread	Sep20	200	0.2055	0.2080	210
USD/CAD FX Link Spread	Jul20	150	-0.00005	-0.00001	130
USD/CAD FX Link Spread	Aug20	50	-0.00016	-0.00013	50
USD/CAD FX Link Spread	Sep20	10	-0.00020	-0.00018	500
NZD/USD FX Link Spread	Sep20	91	0.00001	0.00002	72
USD/CHF FX Link Spread	Sep20	170	-0.00187	-0.00185	175
GBP/USD FX Link Spread	Jul20	180	0.00001	0.00004	50
GBP/USD FX Link Spread	Aug20	180	0.00028	0.00031	100
GBP/USD FX Link Spread	Sep20	750	0.00046	0.00047	10

Replication of FX Swap Activity

FX Link can be leveraged to achieve the exposure of an FX Swap with the additional benefits of execution through an anonymous central limit order book and centrally cleared forward exposure.

Scenario:

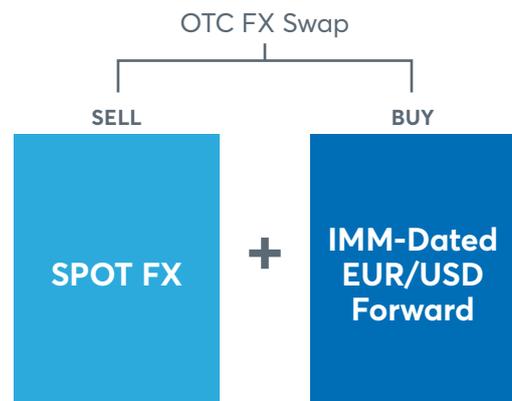
A market participant is long a position in spot EUR/USD and intends to roll the position forward one month into an IMM dated OTC EUR/USD forward.

Long
Position

SPOT FX

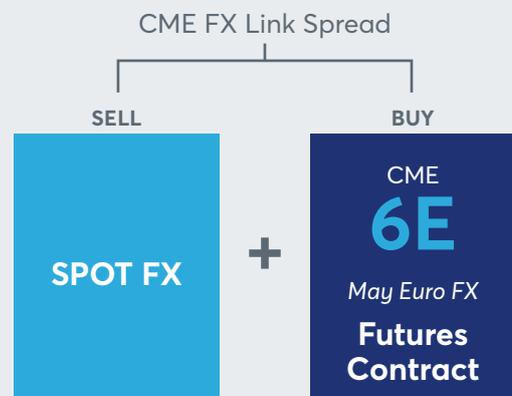
OTC Approach:

- Execute an IMM dated FX Swap via bank/PB relationship, selling spot EUR/USD, buying an IMM EUR/USD forward
- OTC FX Swaps typically trade bilaterally via phone, a single bank platform or captive through an FXPB
- Incur applicable PB fee for FX swap with typical bid-ask spread ranging from 0.2-0.3



FX Link Approach:

- Leveraging electronic workflows, buy EUR/USD FX Link spread via anonymous central limit order book, selling EUR/USD spot and buying EUR/USD FX IMM dated, centrally cleared FX futures
- Incur applicable PB fee for spot leg and \$2-\$8/million* for the futures leg, with bid ask spread of 0.1-0.2 and the ability to work orders, avoiding paying spread



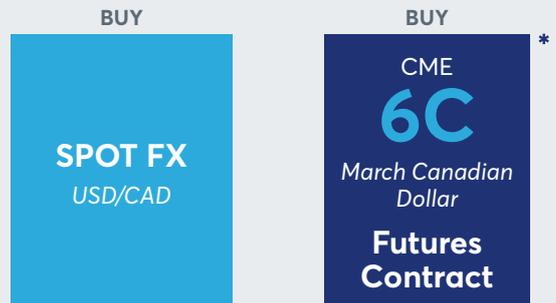
*Fees based on membership rates for available pairs with the exception of MXN.

Manage FX Hedges/Futures Basis Risk

FX Link can be leveraged to efficiently offset an existing FX Spot hedge or futures basis exposure while mitigating execution risk associated with trading multiple legs independently.

Scenario:

A market participant buys spot USD/CAD and establishes a hedge via the liquidity of USD/CAD futures. The result is a neutral market position with basis risk, incurring margin, capital and settlement costs on both legs. The customer intends to subsequently collapse this position, removing the basis risk and cost of the two positions.



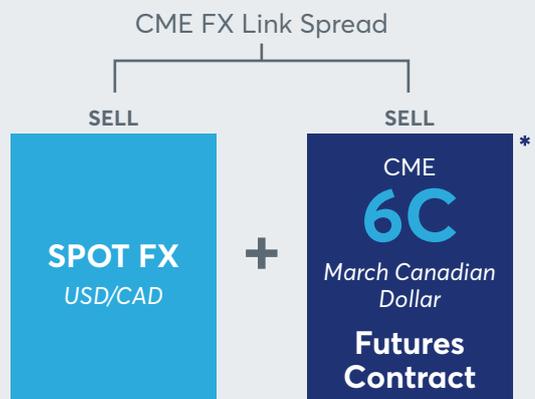
OTC Approach:

- Sell USD/CAD spot via bank/PB relationship and sell a USD/CAD future via CME's central limit orderbook
- Separately executing two transactions, resulting in applicable PB and exchange fees, with potential execution risk and the cost of crossing the bid ask spread twice



FX Link Approach:

- Buy USD/CAD FX Link spread via anonymous central limit order book, selling USD/CAD spot and selling USD/CAD FX IMM dated, centrally cleared FX futures
- Removes execution risk, maintaining similar or lower costs (applicable PB fee for spot leg and \$2-\$8/million** for the future), while reducing legging risk and crossing a single spread of 0.1-0.2., or working order to avoid paying spread



*USD/CAD FX futures are quoted inversely to the OTC USD/CAD convention

**Fees based on membership rates for available pairs with the exception of MXN

Convert Non-IMM to IMM Exposure

FX Link can be leveraged to migrate broken dated positions into a netted, cleared futures IMM date, minimizing the total transaction cost associated with achieving this result.

Scenario:

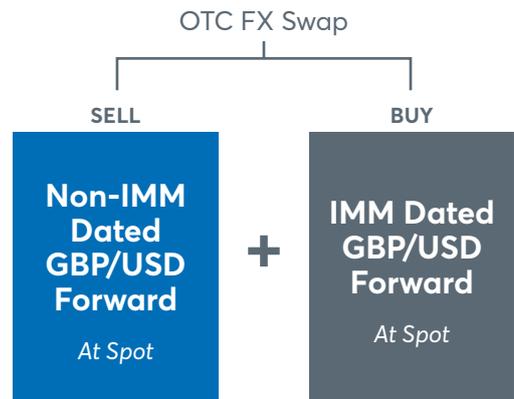
A market participant has established a long position in a Non-IMM dated GBP/USD forward. Later they intend to roll to an IMM dated GBP/USD forward as the original position converges to spot.

Long Position



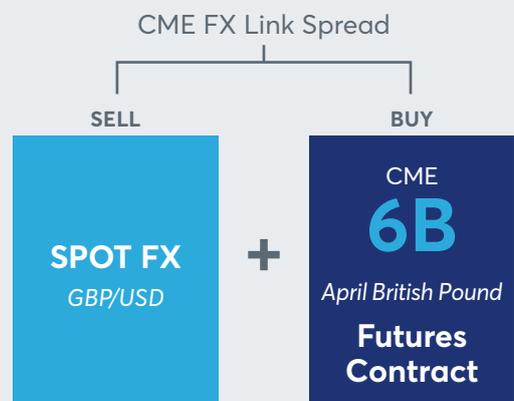
OTC Approach:

- Sell an offsetting spot dated GBP/USD forward, that has converged to spot, and buy an IMM dated GBP/USD forward via bank/PB relationship
- Incur applicable PB fee for the FX roll with typical bid-ask spread ranging from 0.2-0.3



FX Link Approach:

- Buy GBP/USD FX Link spread via anonymous central limit order book, selling GBP/USD spot and selling GBP/USD FX IMM dated, centrally cleared FX futures
- Incur applicable PB fee for spot leg and \$2-\$8/million* for the future, with bid ask spread of 0.1-0.2 and the ability to work orders, avoiding paying spread



*Fees based on membership rates for available pairs with the exception of MXN

Replacement of OTC FX Option Delta Hedge

FX Link can be used to replace an OTC FX spot delta hedge of an exchange-listed FX option transaction for enhanced margin management.

Scenario:

A bank sells at-the-money (ATM) put options on the CME JPY/USD futures contract. The bank seeks to delta hedge the short ATM put options against price movements in JPY versus USD to create a delta-neutral portfolio that will profit from the implied volatility and/or time decay of the short ATM put option position.

Long Exposure



OTC Approach:

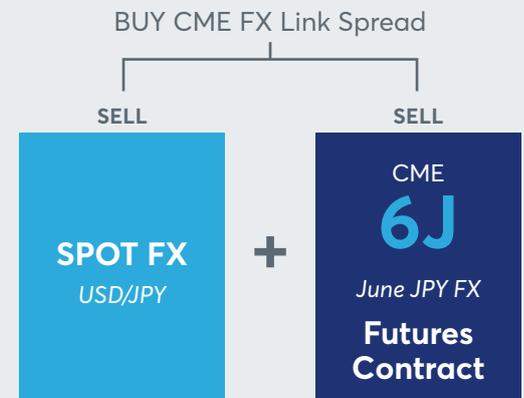
- Execute delta hedge by buying spot USD/JPY in the OTC market in an amount equal to the delta, of the short ATM JPY/USD put option position to create a delta-neutral portfolio*
- Separately executing two transactions, resulting in applicable PB and exchange fees, with potential execution risk and the cost of crossing the bid ask spread twice
- Introducing basis risk and forward risk to the delta hedge since underlying instrument of option is a FX futures contract and not spot FX

BUY



FX Link Approach:

- To replace an OTC USD/JPY spot delta hedge of the short ATM put option position, the bank could buy the USD/JPY FX Link spread – i.e., selling a delta-equivalent IMM-dated CME JPY/USD futures position while simultaneously selling an offsetting delta equivalent OTC USD/JPY spot position
- Effectively replaces the OTC USD/JPY spot position with a delta-equivalent IMM-dated JPY/USD futures position
- Receives full central clearing party benefits, portfolio netting of futures and options leading to optimized margin requirement and lower funding requirements



* The ATM in CME is not always 50 delta

Hedge FX Risk of a Non-IMM Dated FX Exposure

FX Link can be used to manage cashflows when an IMM dated FX future is used to hedge FX exposure inherent in a non-IMM dated transaction, combining efficiencies of CME FX futures with accuracy in cashflow timing.

Scenario:

An Australian commodity exporter is making a non-IMM dated forward delivery of the commodity for USD. To protect against a USD depreciation versus AUD in the interim period the exporter seeks to hedge the dollar exposure related to the delivery.

Long Position

Non-IMM Dated Commodity Forward

OTC Approach:

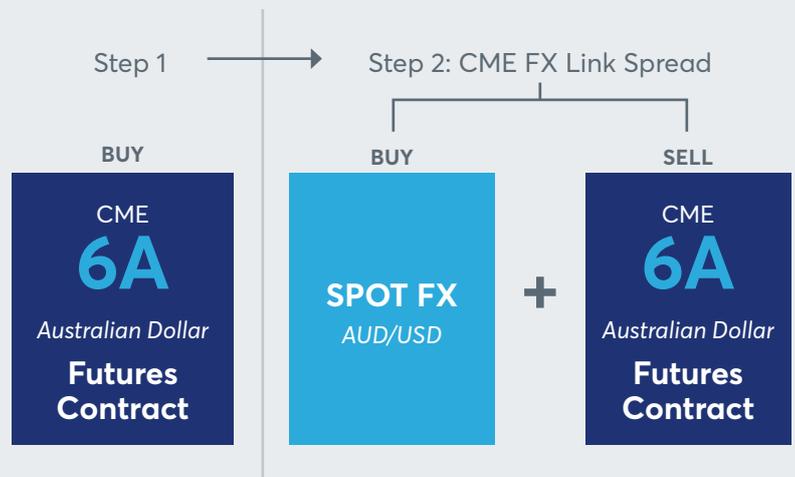
- Buy a notionally equivalent, non-IMM dated OTC AUD/USD forward to the exact date to match the non-IMM dated commodity forward to hedge the USD exposure, effectively converting the USD to AUD
- Potentially more expensive given the custom non-IMM dates, introducing counterparty risk, and offering no capital benefit
- Incur applicable PB fee for establishing the FX position with typical bid-ask spread ranging from 0.3-0.4

BUY

Non-IMM Dated AUD/USD Forward

FX Link Approach:

- **Step 1:** Buy a notionally equivalent, IMM-dated CME AUD/USD futures contract for the same corresponding underlying delivery month of the commodity forward
- **Step 2:** Two business days prior to the delivery date, sell the AUD/USD FX Link spread. This transaction is selling an offsetting IMM-dated CME AUD/USD futures while simultaneously buying AUD/USD spot
- Mitigates currency risk of the non-IMM dated commodity forward at a potentially lower cost than an OTC transaction, while receiving full central clearing party benefits, futures position netting, and optimizing capital relief efficiencies
- Incur applicable PB fee for spot leg and \$2-\$8/million* for the future, with bid-ask spread of 0.1-0.2



*Fees based on membership rates for available pairs with the exception of MXN

Optimizing an Exchange-Listed FX Option Hedge

FX Link can be used to make an exchange-listed FX option transaction more effective for hedged exposures requiring delivery of spot currency.

Scenario:

A fixed income portfolio manager (PM) has a Euro-denominated bond maturing and wants to repatriate the proceeds of this asset for use in the US.

Long Exposure

SPOT FX
EUR/USD

OTC Approach:

- The PM can purchase a bespoke dated Euro put option from a bank
- If the put is in-the-money (ITM) at expiry, the PM will exercise the option and use the spot transaction to sell EUR for USD for value on the bespoke date of the option. If the put is Out-of-the-money (OTM) at expiry, the PM will need to enter a second transaction to sell EUR versus USD on a spot basis
- Bespoke option less transparent and more expensive; potential pricing slippage incurred if PM decides to offset option instead with bank prior to expiry; and possible execution risk if option expires OTM thus requiring a separate, second spot transaction to convert EUR to USD on the bespoke date

BUY

Bespoke
EUR/USD
PUT

FX Link Approach:

- Alternatively, the PM could buy an exchange-listed EUR/USD put option on CME – anonymously with fully transparent and competitive pricing
- If the put is ITM at expiry, the listed option is auto-exercised. The PM can then buy the EUR/USD basis on FX Link to offset the short futures position originating from the option's exercise while achieving the desired spot settlement of selling EUR for USD. If the put expires OTM, the PM simply executes a spot transaction instead, selling EUR for USD
- Receives full central clearing party benefits, portfolio netting of futures and options, and optimized margin and lower funding requirements

CME FX Link Spread

BUY

CME
6E
August Euro FX
Futures
Contract

+

SELL

SPOT FX
EUR/USD

Resources



Follow the volume tracker and **stay up-to-date** on volume, updated daily, showing last 10 days of market performance.



Trade through **CME Direct**, our fast, secure and highly-configurable trading front-end or follow the market in real time.



Market Data is also available through **Refinitiv**.



FX Link will become available on Bloomberg. Please log a request with their help desk to **indicate your demand**.

FX Link is available to trade in eight currencies:

EUR/USD

AUD/USD

USD/JPY

USD/CHF

GBP/USD

NZD/USD

USD/CAD

USD/MXN

View Market Data on Refinitiv

Example RICs

Spot RICs:

<AUDUSD> <EURUSD> <USDCAD>

Spreads FX LINK RICs:

<JYM8-USDJPY> <1CDU8-USDCAD>

Chains

0#UROXF-EURUSD:

0#MPYF-USDMXN:

0#BPXF-GBPUSD:

0#CDYF-USDCAD:

0#ADXF-AUDUSD:

0#SFYF-USDCHF:

0#JYYF-USDJPY:

0#NEXF-NZDUSD:



Visit cmegroup.com/fxlink for

- Spread functionality specifications
- Documentation
- Videos on how it works and how participants are using it
- Instructions on how to start trading



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To speak to a member of team, please email fxteam@cmegroup.com for further information.

For more information, please contact:

Paul Houston

Head of FX, London Office
paul.houston@cmegroup.com
+44 203 379 3355

Matt Gierke

London Office
matthew.gierke@cmegroup.com
+44 20 3379 3546

Divay Malhotra

London Office
divay.malhotra@cmegroup.com
+44 20 3379 3796

Ravi Pandit

Singapore Office
ravi.pandit@cmegroup.com
+65 6593 5562

Craig LeVeille

Chicago Office
craig.levaille@cmegroup.com
+1 312 454 5301

Graham McDannel

Chicago Office
graham.mcdannel@cmegroup.com
+1 312 454 5209

Beau Parker

Chicago Office
beau.parker@cmegroup.com
+1 312 872 5280

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