

Weather Futures and Options

FINANCIAL TOOLS THAT PROVIDE A MEANS OF TRANSFERRING RISK ASSOCIATED WITH ADVERSE WEATHER EVENTS.

Overview

It is estimated that nearly 30 percent of the U.S. economy is directly affected by the weather. To enable businesses to hedge the risk they face from atypical weather conditions — summers and winters that are hotter or colder than normal — CME Group has developed Weather futures and options. These products are financial tools that provide a means of transferring risk associated with adverse weather events. They are index-based products geared to average seasonal and monthly weather in 10 cities around the world — 8 in the U.S., 2 in Europe.

How Weather is Traded at CME Group

Weather futures and options are all index-based products. Indexing makes it possible to trade weather in a way comparable to trading other index products such as stock indexes. The products are geared to different indexes. Weather products quantify weather in terms of how much the temperature deviates from the monthly or seasonal average in a particular city/region. The variations are geared to specific indexes, with a dollar amount attached to each index point.

Quantifying weather in this way makes it a tradable commodity comparable to trading the varying values of stock indexes, currencies, interest rates and agricultural commodities. For example, summer weather is measured in terms of temperatures that exceed a base of 65 degrees Fahrenheit (18 degrees Celsius in Europe) and referenced to a Cooling Degree Day (CDD) Index. Winter weather is measured in terms of how much temperatures are below 65 degrees and referenced to a Heating Degree Day (HDD) Index.

Benefits

- Access to unique tools for managing price risk due to weather
- Stabilized cash flow for hedges participating in these markets
- Opportunity to profit from the uncertainty of weather
- Centralized clearing and counterparty credit guaranteed by CME Clearing
- Transparent prices on the electronic futures products

Market Participants

Participants in these markets include companies in a wide range of industries:

- Insurance and reinsurance companies
- Hedge funds
- Energy companies
- Pension funds
- State governments
- Retailers
- Utility companies

Futures

- Available on CME Globex around the clock, around the world
- Available for block trading

Options

- Available via open outcry on the CME Group trading floor
- Available for block trading

Products Available

10 US & European Cities

- New York
- Chicago
- Atlanta
- Cincinnati
- Dallas
- Sacramento
- Las Vegas
- Minneapolis
- London
- Amsterdam

HDD & CDD Monthly Futures and Options

HDD & CDD Seasonal Futures & Options

- HDD Seasonal Strips (Nov-Mar & Dec-Feb)
- CDD Seasonal Strips (May-Sep & Jul-Aug)

For more information on Weather futures and options, visit cmegroup.com/weather.

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