



# FX Futures

## - Welcome to the New Normal

**M**any FX participants are already reviewing their FX operating model, building support for FX clearing and Futures in addition to their OTC FX.

This is not in the belief that the entire FX market will move to a cleared model, but it is evident that pioneering firms are already staking their claim as well as exploiting the values that hybrid OTC and Cleared products can bring; blurring the historic lines that have previously separated bilateral FX models, PB'd access to markets, OTC clearing, and FX Futures.

While FX clearing is evolving from a market with pockets of activity (such as interdealer NDF) as it is only now that deliverable FX clearing services are becoming available such as Eurex's that will support the OTC FX products where the real ADV is seen (FX Swap, Outright Forwards, FX Spot), in the short term it is Futures that offer a more immediate win for clients - so let's focus on the two key challenges that are already being overcome: liquidity and cost efficiency.

### It's all about Liquidity

Well, actually it's not all about liquidity, but the simple truth remains that if you don't have access to enough liquidity then you can't do the trade you need to do.

While FX Futures have operated with a ceiling of electronic liquidity for many years, the constraints of trading on-exchange has been a blocker for many market takers as well as the rigid nature of the monthly and quarterly products that have been available.

So the new Deutsche Börse Group FX Futures proposition is actually a hybrid ecosystem beyond the order book, and with

a broader product selection. We do of course have an exchange platform; the industry-leading Eurex T7 exchange platform where our FX contracts are listed, and with committed liquidity providers providing tight no last look pricing through the day it's a great a place to get your trade done. But we do understand that an all-to-all, firm liquidity, central limit orderbook is not always the right route every price taker needs to take for every situation.

That's why as a buy-side FX participant using 360T, not only can you access that Eurex orderbook literally alongside your OTC activity, but you can also face your LPs in disclosed, transparent, electronic models that give you electronic futures liquidity that is quoted for you and relevant to you. Yes, for the first time, if you wanted to trade FX Futures using disclosed models against a panel of LPs, just like you do in OTC, you can do this now with Futures on 360T.

Even beyond the prospect of bespoke electronic liquidity though, we have a further backstop of voice brokers willing and able to price in size so you can always unwind large positions even if they would be potentially beyond orderbook adv or open interest, or when you need to use an immediate risk transference price for your trade.

So whether it is monthly and quarterly deliverable contracts, or the Eurex Rolling Spot Futures to effectively trade spot in your Futures account, you can now access these products without having to do all of your trading on-exchange.

### It's all about cost efficiency

This is actually where the most change will be occurring as the route to the best

outcome for your trade will depend on what liquidity you have in suitable products, through all channels available, understanding the benefits each choice brings to your overall portfolio/business.

This sounds obvious, but it's a lot of data to be crunched: For example, just the consideration of whether to centrally clear a trade has many perspectives; including whether to use an OTC cleared trade or a Futures product to achieve a lower margin, and to look beyond the headline capital benefits you can accrue from clearing (which fyi our model shows at around 9 basis points - even with exemptions from mandated bilateral margin!), to evaluate the right account, clearing member, and even CCP as well as whether this trade will reduce your overall margin or collateral burden or you need to fund or mobilise assets in order to post margin to support it.

As you can imagine, this will drive a new trading model that will feed on multi-dimensional data like never before; and which can generate the trades that will optimise your portfolio and so also your returns, via informed trading and the use of the right products.

### 2019: FX clearing is the new normal

While the above sets out an end state that may still be a way off for many participants, the first steps to realising some benefits are in reach. We are already running client portfolios and scenarios through a model helping to show the benefits of clearing, and offering easy access to Futures products alongside OTC in 360T as a route to exploiting immediate benefits. With a recent swell of enquiry and activity resulting from our Futures product soft launches, it is already clear that use of FX Futures and Clearing will become part of the new normal for many firm's FX trading activity, through 2019.



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