

Inside CME Group: Last Quarter's Progress.

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After four quarters of declining revenues, CME Group, the world's largest derivatives trading platform, finally saw some improvement, posting revenue that equaled last year's number instead of decreasing from it. Ever since the Virus hit over a year ago and the Fed lowered interest rates with no prospect of future raises, the interest-rate-futures market has been relatively stable—which is the opposite of what futures traders like to see. The product makes up a quarter of CME's sales. This quarter, though, speculation over future inflation, interest rate hikes, and continuing recovery in the economy helped raise trading volumes in CME's Interest Rates (up 31%), Agriculture (up 42%) and Options (up 13%) markets.

The 3 ways CME Group will grow its revenues are: more participants in its markets, more products that are desired by its customers, and keeping costs low. For the first leg of that strategy, we wrote last quarter about CME's focus on growing its international customer base, which it continues to do this quarter with volumes up 6%. For the second leg, CME continues to launch new products every quarter. For the third leg, it lowered its expected 2021 costs even more, with total expenses now expected to be the same as last year.

In the past few years, several of CME's new product launches have been "micro" versions of existing contracts. Traders using micro products are more likely to be the individual, retail day trader rather than the huge, multi-billion dollar company, as the micro concept gives the trader access to the same market but for a fraction of the upfront cost. For example, in CME's very successful micro E-mini futures contracts, which allow traders to bet on the major equity indexes like the S&P 500, the cost of a regular contract might be \$50 times the futures price, whereas the micro contract is only 1/10th of the price. This past quarter, CME had its most successful commodity product launch ever with its micro WTI (crude oil) contract. The following graphic shows the timeline of CME's micro additions, and its path to more additions in the next few months. As CEO Terrance Duffy says, "we want to look at where the concerns of the market are and what our clients are needing. If it makes sense for us to list smaller contracts to address a larger audience, then we will".



CME showed several positive trends this quarter, especially with successful new product launches and volumes in its Interest Rates products coming back. The stock price is almost back to its pre-pandemic high. While working through a very long period of nearly "frozen" interest rates, discouraging futures

trading, CME kept laying the groundwork for future growth, with new global customers and new products. We think that work will pay off for a long time, and the next few quarters will make that clear.

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