

Inside CME Group: Last Quarter's Progress.

Nov. 10, 2020

CME's customers use its online trading platform most heavily when there is uncertainty in the market, whether it be the Treasury bond market or the pork belly market, to either earn money from or to protect against that uncertainty. When the Fed lowered interest rates to zero earlier this year, and promised no raises for the immediate future, and when the oil price held steady between \$40-\$42 for several months, 2 of CME's largest business lines had a dropoff in trading activity, hurting revenues. Third quarter revenue was 14% lower than a very successful quarter a year ago due to continued lower trading volumes due to the Fed's action.

A theme for many companies, this quarter, has been a focus on "green shoots" of recovery, and CME's story was no different. Here are CME's "green shoots":

- Half of CME's product lines (equities, metals, and agriculture) increased in volume from last year. The metals and agriculture lines have higher rates per contract than other business lines, like interest rates.

2020 YTD Activity Solid Despite Macroeconomic Headwinds Year-Over-Year Growth Across 4 of 6 Asset Classes

Product Line	YTD 2020 ADV	Year-Over-Year Growth	2Q20 Average RPC
	<i>ADV in thousands, growth compared to same time period in the prior year</i>		<i>Dollars</i>
Interest Rates	8,934	-19%	0.510
Equities	5,782	66%	0.574
Energy	2,595	8%	1.191
Ag Commodities	1,392	-10%	1.316
FX	884	2%	0.786
Metals	745	12%	1.518
Total	20,332	2%	0.731

- CME's metals strength was led by strong demand for gold and silver products. The Fed's policy of promising low rates opens the door for possible inflation in the coming months and years. A popular way to hedge against inflation risk is to buy commodities like gold and silver. The volume for one of CME's gold products, the Micro Gold future, was 300% higher than a year ago.



- Despite the oil market remaining relatively calm, the natural gas market has been heating up, with volumes up 32%. Foreign participation in the Henry Hub contracts (natural gas out of Texas) has increased 82% reflecting the growing importance of that contract as a global benchmark. CME has over 80% of the market share for Henry Hub derivative trading.
- Interest rate products, CME’s largest business line, still trade at low volumes, but CME is seeing increased volumes on products farther out on the curve, meaning the 10-year Treasury and beyond.

CME’s revenues, these last two quarters, have certainly been hurt by the Federal Reserve’s dramatic “zero rates for a long time” policy, earlier this year. During times such as these, CME’s traditional behavior has been to keep diversifying its business by creating new trading products and introducing them to new customers. During this earnings call CME’s management team really focused on their efforts and success with this tactic. At Outlook we strongly doubt that the Fed’s “zero rates” policy will last “a long time.” We think inflation will end the policy much sooner than the Fed expects. CME will benefit.