

Research Confirms Changes to Global Foreign Exchange Trading and Reactions to Credit Constraints

--Credit conditions sharpen focus on counterparty risk, insolvency

CHICAGO and LONDON, April 2, 2009 /PRNewswire-FirstCall via COMTEX News Network/ -- CME Group, the world's largest and most diverse derivatives exchange, today released results from its second annual Global Foreign Exchange (FX) Market Study of both cash and exchange-traded FX products, reinforcing indications that credit constraints have led to an increased focus on counterparty and systemic risks. A year after the first Global FX Market Study, 2009's edition also provides confirmation that changing priorities among traders, toward better market access and lower costs related to bid-offer spreads, are driving demand in electronic trading.

"This year's study provides a telling snapshot of attitudes within the FX market as credit markets around the world continued to compress in late 2008," said Derek Sammann, Managing Director, Global Head of CME Group FX Products. "Market participants' growing concerns about liquidity and counterparty credit have driven demand for electronic trading, better market access, and proven counterparty clearing solutions."

At the time the survey was conducted (September 2008), traders revealed changing priorities when assessing their concerns in troubled markets. The Global FX Market Study showed the following:

- Banks cite counterparty risk as their biggest worry when supplying e-pricing, up to 84 percent from 72 percent last year*. Worries about settlement risk dropped from 64 percent to 52 percent, while only 16 percent regarded latency as a concern, down from 19 percent in 2007 - a continuing trend.
- When assessing systemic risk, a liquidity crunch remained topmost worry at 43 percent. But tellingly, insolvency emerged as of nearly equal concern, up massively from 15 percent a year ago to 35 percent immediately prior to the Lehman Brothers insolvency. Correspondingly, worries regarding macro-economic problems fell from 30 percent to 14 percent; major e-systems failure dropped from 26 percent to 13 percent; and back office/settlement limitations retreated from 26 percent to 12 percent.

In volatile conditions, traders continued to value efficient execution:

- When assessing the impact of technology, banks rated better market access as top priority at 59 percent (up from 52 percent in 2007), including liquidity management, aggregation and order routing to give greater choice and control. This came in ahead of more/less volatility (down from 60 percent in 2007 to 55 percent in 2008).
- In analyzing transaction costs, bid-offer spreads are the greatest cost concern for investors (highly active 76 percent, real money 50 percent), remaining at 50 percent for real money investors and falling from 81 percent for highly active.
- Growing pressure on bilateral credit lines is revealed in slowing demand for prime brokerage services, increasing from 36 percent in 2007 to 38 percent in 2008, after a jump from 23 percent to 36 percent the previous year.

David Poole, COO ClientKnowledge, said, "The latest study confirms that both counterparty risk and the risk of insolvency were key issues for respondents, even before the events of September 2008. At this time there seems to be a clear demand for innovative post trade solutions that reduce risk and increase efficiency."

In relation to trends identified in the previous year's Global Foreign Exchange Market Study, the following points were notable:

- Buy-side respondents displayed a greater need for cross-product risk management opportunities with money markets again most likely to be traded alongside FX, but increased growth in trading of other asset classes alongside FX. 70 percent of Real Money investors cite money markets as their leading cross-product asset class, on a par with 2007, followed by Fixed Income at 65 percent (up from 35 percent). Highly Active investors showed growth across all cross-product activities, with money markets up from 73 percent to 83 percent; fixed income up from 53 percent to 61 percent; equities up from 41 percent to 54 percent, and interest rates up from 28 percent to 40 percent.
- For the second year, difficulty in realizing absolute returns through FX investment strategies drove investors away from dedicated FX funds and towards hedging/overlay risk management strategies. Dedicated FX funds plummeted 30 percent to four percent for Real Money investors and 27 percent to 15 percent for Active managers. Correspondingly, Real Money investors' focus on hedging and overlay strategies rose 51 percent to 82 percent, while Active Investors' 73 percent was 44 percent above last year's figure.
- Continuing the trend toward a greater uptake of electronic trading, the 2007 survey's prediction of an 80 percent proportion of cash trades conducted electronically by 2010 has already been achieved. The acceleration is driven by banks that now conduct 85 percent of their trades electronically (up from 76 percent in 2007), whereas Real Money investors remained stable at 72 percent and Highly Active investors at 70 percent.

The research was conducted by ClientKnowledge, the provider of expert research, analytics and strategy for the wholesale financial markets. A summary of the survey is available at <http://cmegroup.com/trading/fx/global-fx-survey>.

CME Group FX is the largest regulated FX marketplace and one of the top three FX platforms in the world with more than \$100 billion in daily liquidity. The CME Group FX product suite consists of 49 individual FX futures and 32 options on futures products. For more information on CME Group FX products, visit <http://www.cmegroup.com/fx>.

Video content from Derek Sammann can be found here: <http://accordent.powerstream.net/008/00102/090402prfxms/msh.html>

*Methodology: the survey polled 893 market participants, including 310 banks, 352 money managers and 231 'non-traditional' money managers or 'leveraged' traders including hedge funds and Commodity Trading Advisors (CTAs). Participants were drawn from a global distribution. The research was conducted between June and August 2008.

For the past 15 years ClientKnowledge has interviewed participants in the FX market, providing a global picture of emerging trends and benchmarking the performance of FX providers. This research enables ClientKnowledge to help trading firms maximise the value of their franchise, in terms of client distribution and the profitability of client-driven trading. Established in 1993, ClientKnowledge provides expert advice in sales, trading and associated technology, using research and analytics to drive customer recommendations. More information is available at www.clientknowledge.com.

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