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WORLD EVENTS ALTER  
THE GLOBAL ECONOMY?  
*p 18*

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## CME GROUP MAGAZINE

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2011

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“The emerging markets house the main growth we are going to see in the world economy going forward.”

IAN BREMMER

FOUNDER AND PRESIDENT  
EURASIA GROUP



### ON THE COVER

Major events in the first quarter of 2011 promise to shift the global economic and political balance for years. Four experts weigh in on what these events mean for the global economy.

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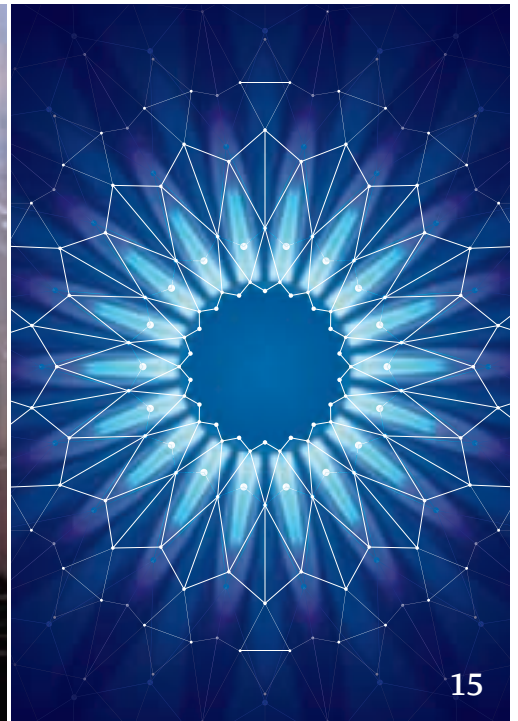
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Former U.S. Secretary of the Treasury Robert Rubin reflects on the U.S. government deficit, persistent high unemployment and the global economic recovery.

John Prestbo, editor and executive director of Dow Jones Indexes, provides insight into the Dow Jones Industrial Average and the index's ability to evolve with economic trends and globalization.



Craig Donohue (left) and Terry Duffy (right)

## FROM THE TOP

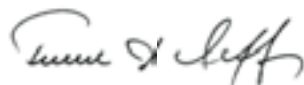
Thus far, 2011 has been a year of opposing themes. We are in the midst of exciting developments in financial markets and opportunities in a growing number of regions. However, we have also seen geopolitical conflict and natural disasters impact populations around the world – on the local level as well as the global level – with respect to supply and demand of essential commodities. The question we now face is, “How do we regain balance?”

Major events during the first quarter of the year, such as the widespread social unrest and conflict in the Middle East and the multipronged disasters in Japan, are affecting the global economic and political landscape. While the collective impact of these events will have long-term implications, the details have not yet come into focus. The futures market is invariably linked to these phenomena.

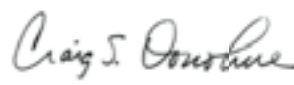
In this issue's cover story, “Regaining Balance,” four experts from varying backgrounds – Ian Bremmer, Andrew Lipow, Nader Mousavizadeh and Robert Pozen – provide their observations on recent global events and how they could alter economic and political frameworks for years to come. This issue of *CME Group Magazine* is also largely devoted to the many exciting trends, technologies and opportunities we are seeing. Highlights of this issue include:

- Perspectives on Mexico's growing prominence in the global derivatives marketplace;
- “The New Iron Age,” which explores the ever-increasing global demand for ferrous metals;
- Details of straight-through processing and how this technology supports efficient, diverse and auditable over-the-counter clearing; and
- A look at the Dow Jones Industrial Average's “Strength of Continuity,” and how it reflects the evolution of U.S. equity markets – with a global perspective.

We hope you enjoy this issue of *CME Group Magazine* and, as always, we remain committed to keeping you at the forefront of global economic thought leadership. You can also read the publication online at [www.cmegroup.com/magazine](http://www.cmegroup.com/magazine).



**TERRENCE A. DUFFY**  
*Executive Chairman*



**CRAIG S. DONOHUE**  
*Chief Executive Officer*





# THE NEW IRON AGE



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As the economic recovery picks up steam, global demand for ferrous metals, notably steel, is rising. While Asia is the leading consumer of these metals, growing demand also comes from other parts of the world.

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Whether the world is entering a “New Iron Age” as some believe, or whether the surging demand for ferrous metals – iron or metal alloys such as steel that contain iron – is merely the natural byproduct of a nascent global economic recovery, one thing seems irrefutable: Asia’s bustling steel mills will continue to set the pace for crude steel production for the foreseeable future.

And a high bar it most certainly is. Easily retaining its preeminent status, China churned out 54 million metric tons (mmt) of steel in February 2011, up 9.7 percent over the year-ago period, according to the World Steel Association (WSA). Neighboring Japan and South Korea produced 8.9 mmt and 5 mmt, respectively, a healthy gain of 5.7 percent for the former and a whopping 25.7 percent boost for the latter.

In February 2011, global steel output reached 117 mmt, 8.8 percent higher than the previous year when effects from the recession lingered, according to the WSA, whose members account for some 85 percent of all steel production on the planet.

“Given the rebound we can see in many economies after the crisis, there naturally is stronger demand than a few years ago, and if you look at Asia, the

strongest sectors generating that demand in 2011 being energy and automotive, according to the American Iron and Steel Institute in Washington, D.C. Overall construction is still lagging in the United States. But once residential and commercial building starts to pick up steam, the organization asserts that shipment levels should rise to where they were in the five-year period between 2004 and 2008.

Not even the catastrophic March 11, 2011, earthquake and tsunami in Japan can cast a lasting pall over the current rise in ferrous metals. “I see negligible global impact on production, even Asian impact, from it,” says John Short, director, metals, and head of steel products in Dubai for Newedge, a futures commission merchant and global brokerage. Although production in Japan could be down for a quarter or two, China is poised to bring on new production, so the Japan effect is minimal by comparison, he explains.

Still, potential headwinds exist. Fueled by inflation worries, China’s central bank in April 2011 ordered the country’s biggest banks to set aside more cash reserves. That, experts say, could dampen prospects for global trade, and there have been reports of a housing bubble in China. “Such signs are indeed cause for concern – as it is quite unclear for how long such perceived imbalances are

“GIVEN THE REBOUND WE CAN SEE IN MANY ECONOMIES  
AFTER THE CRISIS, THERE NATURALLY IS STRONGER  
DEMAND THAN A FEW YEARS AGO. AND IF YOU LOOK AT  
ASIA, THE TIGER CLEARLY IS STILL LEAPING AHEAD.”

MICHAEL ZEITLER, head of metals brokerage  
BNP Paribas Commodity Futures, London

Tiger clearly is still leaping ahead,” says Michael Zeitler, head of metals brokerage for BNP Paribas Commodity Futures in London. “The infrastructure investments are still large and as wealth distribution changes ever so slowly, the demand for better infrastructure – even in rather rural areas – will keep on coming.”

#### DRIVING DEMAND

The need for raw materials essential to steelmaking should keep on increasing as well. London-based Rio Tinto, a leading international mining group, expects iron ore consumption in China to double by 2020 from 2008 levels. And that most likely translates into continued high prices for ore, says Randy Liaw, deputy general manager for Burwill Resources, a subsidiary of international steel trader Burwill Holdings Ltd. in Hong Kong.

“Since supply is very much concentrated on three major suppliers, I think price will remain at a high level,” Liaw states. “Therefore, steel prices will also maintain the high level with very narrow correction space.”

While it cannot measure up to Asia in total tonnage, North America’s steel demand is expected to climb steadily over the next couple of years, with the

sustainable, so there are some signs of caution,” BNP Paribas’ Zeitler cautions. “I would believe that if we see further add-on effects from recent problems such as in Europe, and if consumption globally should take another hit in 2011, we should see a noticeable dent in demand.”

Due to the volatility in prices all along the production/distribution chain in ferrous metals, most experts are seeing increased use of derivatives to hedge those risks. In April 2011, CME Group launched three new ferrous metals products to augment its existing suite of iron ore and steel contracts. Newedge, says Short, has been “the designer of a lot of contracts currently trading, be they swap futures or options, so we’re definitely knowledgeable about the products and their markets and believe they will grow over time to perhaps what we see in the energy complex around the world.”

Jim Lennon, head of commodity research at Macquarie Bank in London, adds that various contracts are getting off the ground in iron ore. “Most popular banks are now offering iron ore swaps,” he says, noting that it’s only natural to have some hedging mechanism via derivatives. “I think you’ll see that getting bigger and bigger over the next three or four years.”



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The image features a dark blue background with a complex network of white and light blue lines connecting various points, creating a web-like structure. In the center, there is a bright, glowing circular area with radiating lines, resembling a sunburst or a central hub. The text "A HUB - of - ACTIVITY" is centered within this glowing area.

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**LINGERING UNCERTAINTY AROUND MIDDLE EAST STABILITY, politically sensitive coal use and heightened global attention on cutting carbon emissions are fueling interest in natural gas. Now, industry-focused risk management tools are available for this evolving market.**

Natural gas' expanding reputation as an economically and environmentally sound contributor in a broad U.S. energy portfolio has already gained the attention of President Barack Obama, oilman-turned-energy-reform champion T. Boone Pickens and other major players focused on shaping the nation's energy future. This high-profile interest hit at a time when the United States may have unearthed one of its biggest resource discoveries in its history: shale gas.

Indeed, Cambridge Energy Research Associates Chairman Daniel Yergin told CME Group's Global Financial Leadership Conference in October 2010 that he considers the "shale gale" to be "simply the most significant energy innovation so far this century" (*CME Group Magazine*, Volume 7 Issue 1).

The "discovery" came by way of new recovery methods and technological advances that allow horizontal drilling and hydraulic fracturing to tap into what was long considered an uneconomical treasure best left underground. Natural gas – shale is just the particular layer of sedimentary rock, among others, which emits gas – gives off fewer emissions than coal and other options, and its extraction uses a smaller land footprint. It is also sustainable and is considered by proponents to be an important part of any dialogue on fuel alternatives.

#### NEW FRONT RUNNER

"With recent events in Japan and continued pressure to produce 'green' energy, natural gas is in a terrific position to fill the void between nuclear and coal," says Pat McKinnon, associate director, energy products and services, at CME Group.

Global competitiveness supplements the "green" argument, but perhaps equally important is the domestic energy security to be gained because of a predicted 100-year, and rising, supply of shale gas, offers Jennifer Fordham, vice president, markets, with the Natural Gas Supply Association (NGSA). That contrasts with a 60-year, and falling, supply just 10 years ago. The group also argues that gas-driven power generation is cheaper for the plants, by way of new construction, as part of a conversion from coal, and also when considering their capital and operating costs.

According to the NGSA, shale gas production quadrupled between 2006 and 2010, while natural gas storage capacity grew 22 percent during that same period. The group reports that growing pipeline capacity and storage advancements are expected to ease price spikes. No matter, cash market participants will still require sound hedging transactions, including in futures markets, Fordham says.

Considering still-volatile pricing, the challenge of aligning demand with some untapped capacity, and the strain on distribution channels, managing financial risk in the natural gas arena has perhaps never been more important. CME Group volume figures are a testament to growing demand for hedging opportunities. First-quarter energy complex volume averaged a record two million contracts per day, up 23 percent compared with the same period a year earlier. Multiple contracts contributed to this volume, including benchmark Henry Hub Natural Gas futures. January average daily volume for the Henry Hub Natural Gas futures and options complex was 440,882 contracts versus 351,720 contracts in January 2010, up 25 percent.

#### FUTURES MARKETS RESPOND

Natural gas markets are clearly growing and evolving. To answer market demand, CME Group launched the first-of-its-kind Delivered Natural Gas futures contracts. The new offering excludes the financially-settled component of established natural gas contracts. Instead, industry participants, including natural gas producers, marketers, storage facilities and end-users, look to the new products for a secure, cost-efficient method for delivery and accelerated payment schedules. Each of the three contracts – Daily/Weekend futures, Balance of Month futures and Monthly futures – is delivered at the Pine Prairie Energy Center in Evangeline Parish, La. The contract allows market participants to acquire or distribute supply in both the baseload, those core volumes required for normal operations, and swing markets, volumes that are managed as a result of fluctuating demand or constraint, via an exchange contract at major pools and storage facilities.

Size, term and pricing align these futures products with the cash market, while margin offset opportunities are found across the energy product complex. Delivered Natural Gas futures are centrally cleared through CME ClearPort and can be traded over-the-counter, on the CME Globex electronic trading platform, or by open outcry on the NYMEX floor.

"Delivered Natural Gas futures specifically address the needs of the broadest portion of the market, much of which has not traditionally incorporated futures as a part of their operations," says CME Group's McKinnon. "As these contracts gain traction and extend in placement and pricing iterations, the market will also enjoy the benefits of quality price indexes based on fully transparent settlements. This will allow for more accurate price contracting from wellhead to burnertip."

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# THE GLOBAL ECONOMY



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## REGAINING BALANCE

**Major events in the first quarter of 2011 – the Libyan revolt, as well as broader Middle East unrest and the Japanese disaster – promise to alter the global economic and political framework for years.**



*CME Group Magazine asks four experts for their observations on what these events mean for the global economy.*

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# Q & A

Nader Mousavizadeh (Oxford Analytica), Ian Bremmer (Eurasia Group), Andrew Lipow (Lipow Oil Associates LLC) and Robert Pozen (Harvard Business School and The Brookings Institution) took time with *CME Group Magazine* to discuss the impact of recent global events.



**What is happening in the Middle East now is certainly one of the most significant transformations that has taken place in the last 100 years.**

**NADER MOUSAVIZADEH**



NADER MOUSAVIZADEH, chief executive, Oxford Analytica, a global analysis and advisory firm

**Q** *Speaking broadly, what do the events in Japan and Libya tell us?*

**A** The combined effect of Libya and Japan happening more or less simultaneously has been to underline the general vulnerability of the global economy to the sources of energy in an increasingly commodity-driven world. As BRIC (Brazil, Russia, India, China) demand continues to rise, that is becoming more and more acute.

**Q** *How does this affect market participants planning for the future?*

**A** What we are dealing with in Japan is a unique set of highly correlated natural disasters. This is an unusual circumstance that is very hard to plan for.

Clearly, there will be post-disaster pressure in Japan, as well as in Western Europe, to determine how nuclear power factors into the future energy mix. I think that is much less the case in the developing world. As people diversify away from hydrocarbons they will want to have access to nuclear going forward.

On the issue of the Middle East and Libya, what you are seeing is an epochal event. What is happening in the Middle East now is certainly one of the most significant transformations that has taken place in the last 100 years. Where the process ends is much more a question of debate. There is much more diversity in the Arab world than otherwise seems to be considered: Syria is not Jordan; Saudi Arabia is not Egypt; Tunisia is not Libya. Understand there is a very broad, important and lasting movement toward accountability and legitimacy. Traditional allies of the West, particularly Saudi Arabia, will not be able to ride this out without more substantial changes than they currently have committed to make.



**The big issue globally is that the economy is completely rebalancing away from the developed world to the developing world and, in particular, from the United States toward China.**



IAN BREMMER

**Q *Is there a way for this Middle East change to occur without roiling the markets?***

**A** Like trying to price in the risk near-term and mid-term, there is no doubt we are facing a split image. There really is no country now that has not been affected meaningfully by this. The short term for the market will hold more risk around continued volatility.

The medium-term and long-term risk for investors is very much that if these societies do not embrace reform of some kind, they are simply kicking the can down the road. If in Saudi Arabia and the Gulf the move is made to simply tighten control and limit further liberalization, there is a much greater risk you will see 1979 Iran all over again.

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IAN BREMMER, founder and president, Eurasia Group, a political risk research and consulting firm

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**Q *What do the events of the first quarter tell us about the global political climate?***

**A** We have moved from a G-7 to a G-20, but G-20 is really aspirational. We would like to have 20 countries collaborating, but they aren't – not on standards, not on trade, not on climate. We see this in the Middle East. Despite the fact Muammar Gaddafi is hated by both the Iranians and the Saudis and despite the fact the Arab League asked for intervention and despite the fact the French got involved, only with great concern and teeth gnashing did the United States say it was prepared to have a limited role. It is the exception that proves the rule: the bar for getting collective action on anything in this environment has gotten far higher and that has massive economic implications going forward.

---

**Q *So the balance of power is shifting away from the United States?***

**A** The big issue globally is that the economy is completely rebalancing away from the developed world to the developing

world and, in particular, from the United States toward China. Those are economies that do not play nicely with each other, and that is going to come back and bite us.

The emerging markets house the main growth we are going to see in the world economy going forward. And, in a world where emerging markets do most of the lifting, you are going to see much more volatility. You are going to see much more zero-sumness in economic confrontation at the global level because the West is not prepared to have the difficult conversations about belt-tightening. There is still globalization going on, but it is not gravitating toward the West and that undermines the ability of the U.S. dollar to maintain itself as the global reserve currency.

---

**Q *How do you see the Middle Eastern political situation unfolding?***

**A** Do not paint all Middle Eastern populations with the same brush. The Saudis have an enormous amount of youth, but they have much higher per capita income. In Egypt and Tunisia, it was a combination of their political systems along with the lack of ability to provide opportunities to young Egyptians and Tunisians. That latter point is not the case in the major Persian Gulf oil producers.

The relevant experience we should be looking at is not the Prague Spring, but the revolutions that followed the Soviet Union's collapse. There were revolutions in Ukraine and Georgia, after which the authoritarian governments in the region learned how to control, how to oppress and coopt more effectively. And they learned how to engage in incremental political and economic reform.

---

**Q *How does Japan fit in with all of this?***

**A** The Japanese nuclear problems certainly will affect how countries view the energy mix. I suspect it will change dramatically in many places, particularly in Germany. It is not going to change China. It is not going to change India. Emerging markets will do what they need to. What we are seeing is that, in a challenging global economic environment, the ability to not have to deal with electoral cycles and regulatory policy proves to be a significant short-term advantage. However, it is not a significant long-term advantage.



**In Japan, with the loss of nuclear electrical generation, part of that shortfall can be made up by importing more LNG.**



ANDREW LIPOW

ANDREW LIPOW, president, Lipow Oil Associates LLC, an energy consulting firm

very cautious. Even when a cease-fire is declared, how soon major oil company employees are going to return to the field is a big unknown.

**Q From an energy market perspective, what are you watching?**

**A** The major issue is turmoil in the Middle East and North Africa. The fact of the matter is we have seen a crude oil supply disruption. Of course Libya has the biggest impact with the loss of production, the withdrawal of major oil companies and, for all intents and purposes, a suspension of exports. This has clearly affected the European refining business much more than the U.S. refining business, as far as supply goes.

**Q Is there much of an effect on the natural gas market in Europe?**

**A** No, it has not been running anywhere near capacity. It has more of an impact on the liquefied natural gas (LNG) market. In Japan, with the loss of nuclear electrical generation, part of that shortfall can be made up by importing more LNG. Japan can also import some amounts of crude oil and very low-sulfur fuel oil available from Asia.

**Q Will other producers make up the dip in Libyan exports?**

**A** The thing to keep in mind is not all refineries are created equal. By that I mean not all refineries are able to process all grades and qualities of crude that are available on the market. Many of the refineries processing Libyan crude, which is light and low sulfur, don't have the equipment to process the heavier and high-sulfur grades that might be available out of Saudi Arabia, Kuwait or even Iraq. It is as if you have a person who is lactose intolerant; it doesn't matter how many dairy cows you have, he can't drink that milk.

ROBERT POZEN, senior lecturer, Harvard Business School, and senior research fellow, The Brookings Institution

**Q What should we make of the disasters hitting a major economy like Japan?**

**A** While it's a tragedy for Japan, it has relatively little effect on the world economy. Over the last 20 years, Japan's portion of world gross domestic product (GDP) has gone down from 20 percent to 9 percent. For the United States, our exports to Japan are less than 1 percent of our GDP. Roughly 1.5 percent of revenues of companies in the S&P 500 Index are attributed to Japan. That is pretty modest.

**Q When will Libyan production come back on line?**

**A** Libyan oil production will remain at very low levels for the foreseeable future. The fact we have now seen some attacks on the Libyan oil production infrastructure should make people

Secondly, there are two counteracting factors. There will probably be some modest disruptions in the supply chain for U.S. companies, but those are fairly easily managed over time. That is a negative for U.S. industry, but a mild one. On the other hand, there will be a lot of rebuilding in Japan, which will help companies like Bechtel, GE and others.

**Q** *Longer term, you sense there may be silver linings for Japan?*

**A** Yes, if these tragic events serve as catalysts for the Japanese to deal with any of their major structural problems. The rural areas have disproportionately high political clout in the Japanese system. The question is whether Japan will stop spending huge amounts of public money on things that have very little multiplier effect. A more productive use of government support, for example, would be for projects to translate medical discoveries into patient therapies. If that happened it would be a very positive thing, because Japan has been spending huge amounts of money trying to revive its economy since the early 1990s. A lot of it has gone into very unproductive attempts, from a multiplier perspective, to save rural areas, such as a seashell museum in Rikuzentakata in the affected region.

A second structural issue is Japan's very low fertility rate; it has a very serious problem of a declining number of workers supporting more and more retirees. Historically, Japan has been hostile to any immigration. If the government actually lets some of the needed influx of foreign construction workers become citizens, it could make a huge difference to the country's pension system and demographics.

**Q** *How do you see Libya affecting the world energy balance?*

**A** There is likely to be some sort of continuing disarray or stalemate there, so while Libya will still be producing some oil, it will probably be half of the previous 1.6 million-barrel-per-day rate. Since supply and demand in oil is pretty tight, we have essentially lost all our margin of error. Almost anything now could really become a major disruption.

That said, the two most explosive situations in the region – Egypt and Libya – have already blown up. Other countries have learned from them and are likely to muddle through. For example, Saudi Arabia is distributing more largesse and trying to implement other reforms. They are clearly learning from this in the sense of being more responsive.

When oil reaches \$130 to \$140 a barrel, a recession is quite likely in the United States. But American demand for oil won't cause such a leap in oil prices. If you look at where we were in 1980 versus where we are now, we still are at roughly 17 to 18 million barrels per day of oil while the economy has basically doubled in that time. What could get oil up to \$130? Either another producer gets knocked out because of political turmoil or we see a substantial increase in demand from less efficient users of oil such as China and India.



**If you look at where we were in 1980 versus where we are now, we still are at roughly 17 to 18 million barrels per day of oil while the economy has basically doubled in that time.**



**ROBERT POZEN**



# *el* **MÉXICO NUEVO**

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Mexican markets are famous for food and hand-crafted goods. But those two words – “Mexican markets” – are increasingly evoking images of stocks and derivatives, at least among global financial market participants. Greater access to derivatives, economic stability and pension fund reform – which have led to growing investments in a variety of asset classes – are among the factors reshaping markets in Mexico.



**“WHEN THE UNITED STATES SNEEZES,** Mexico catches a cold” is a saying that illustrates the interconnectedness of the Mexican and U.S. economies. But the nature of that relationship is changing, and becoming more sophisticated, as the Mexican economy diversifies and matures.

“Mexico and Latin America look good to investors, given the political risks in the Middle East and debt crisis in the European Union,” says Alfonso Garcia, president and chief executive officer of GAMAA Derivados, a brokerage firm. “Mexico has strong economic fundamentals and fiscal policies and offers good yields to foreign investors.”

Mexico boasted the world’s 14th-largest economy in 2010. Its trade with the United States and other countries has benefited from rising prices of oil and agricultural commodities. The national debt is just \$108 billion – or about 30 percent of gross domestic product – and its reserves exceed \$120 billion, excluding a credit line from the International Monetary Fund (IMF). Inflation is stable, at about 3 percent for the 12 months ended March 2011. Although the Mexican peso was pressured by the financial crisis – the floating exchange rate went from about 10 pesos to the U.S. dollar in August 2008 to more than 15 in March 2009 – the peso has since strengthened closer to 2008 levels.

Mexico’s growth averaged more than 3.5 percent from 2003 to 2007, according to the IMF, which also says Mexico weathered the financial crisis “relatively well.” Post-crisis, the economy is expected to grow 4.3 percent in 2011. So what is the underlying reason for the positive trends?

“We learned from the crises of the past century,” says Guillermo Camou, listed derivatives director for Scotia Capital Mexico. “Our central bank, as a regulator, is very strict in doing surveillance for best practices in risk management of the financial entities and watching for good performance of inflation. Foreign investors can be safe in Mexico.”

#### MARKETS BOOSTED BY PENSION FUND REFORM

Mexico’s pension system for private sector workers was created in 1997, following reform of a separate pension system for federal workers. Mexico currently has 14 private pension fund managers – or “Afores” – which originally invested conservatively in fixed-income instruments. Step by cautious step, regulatory limits on other asset classes were liberalized as inflation declined and investment management became more sophisticated. Today, the Afores can invest a significant percentage of assets under management in equities, derivatives, and even “capital development certificates” – private equity linked to infrastructure projects.

“The Afores have about \$117 billion in assets under management, representing 13.4 percent of the Mexican financial system, and have grown by nearly 17 percent per year for the past five years,” says Pedro Ordorica, president, CONSAR, Mexico’s National Commission for the Retirement Savings System. “The Afores provide a local basis of liquidity that contributes to the efficiency, depth and liquidity of domestic markets. For example, before the Afores, it was difficult to participate in the long end of the yield curve in Mexican bonds. Today, investors know there is more liquidity in the local markets.”

In October 2010, investors’ confidence in Mexico reached new highs when the country sold \$1 billion in 100-year bonds in the largest offering of century bonds to date. Also in October, Mexico became the first Latin American country to join Citigroup’s World Government Bond Index, which the bank estimates helped foreign investment in peso bonds to reach \$10 billion over the previous 11 months.

BMV Group, which owns both the Mexican Derivatives Exchange (MexDer) and the stock exchange, Bolsa Mexicana de Valores, is working to increase volume and liquidity in both markets. In 2010, BMV permitted

BANCO  
DE MEXICO

# MÉXICO

## A New Frontier for Cross-Border Access

direct market access to facilitate trading by brokers who are not BMV members, and also allowed high-frequency traders to house their data servers at the stock exchange to reduce latency. Plans for 2011 include technology improvements to facilitate more complex equity trades. To foster derivatives liquidity, BMV and CME Group recently launched the first phase of an order-routing connection which will lower the cost to connect and trade (see sidebar).

In 2010, MexDer traded nearly 42.6 million contracts with a notional value of \$1.6 billion, due to both domestic and international demand. Mexico's Ministry of Agriculture offers a program to educate and incentivize Mexican farmers to hedge their risk. Large foreign banks are active MexDer participants through their Mexican bank subsidiaries, as are independent brokers in Mexico. Furthermore, foreign investors pay no Mexican withholding tax; they can trade through omnibus accounts via their home country futures commission merchants (FCMs) rather than registering in Mexico as investors; and MexDer's triple-A-rated clearing house, Asigna, allows margins to remain in U.S. dollars. Top MexDer contracts include the 28-day Interbank Interest Rate futures, 91-day Mexican Treasury bill ("Cetes") futures, 10- and 20-year bond futures, and the Mexican Stock Exchange Index (IPC) futures and options on futures.

"If I were an American investor, I would be very interested in Mexico's derivatives market for diversification and profit opportunities," summarizes Guillermo Ochoa, director, exchange-traded derivatives for Banco Santander. "We know we have to go outside Mexico to grow, so we are reaching out to new audiences – FCMs and arcades and proprietary traders. We have very reliable institutions, top-notch clearing services and global connectivity, and we are prepared to offer global service."

In April 2011, Mexican investors found it easier than ever before to access the U.S. derivatives markets, thanks to a new direct "south-to-north" order-routing connection between CME Group and the Mexican Derivatives Exchange (MexDer). A new CME Group telecommunications hub in Mexico City enables MexDer participants to use their existing front-end trading platform or application program interface to route and execute on the CME Globex electronic trading platform. This lowers the cost to diversify investments, hedge risk across multiple exchanges, or arbitrage prices between markets and/or securities.

The second phase of cross-border access, "north-to-south," will provide CME Group market participants with access to MexDer's benchmark interest rate and equity index derivatives starting in the third quarter of 2011. To date, U.S. traders have expressed the strongest interest in the Mexican Stock Exchange Index (IPC) futures, U.S. dollar-Mexican peso currency futures and Mexican government bond futures.

"South to north, Mexico has developed a large institutional investor base over the past 10 to 15 years that now has direct access to CME Group markets to hedge commodities produced in Mexico, such as agricultural products, metals, oil and natural gas," says Luis Téllez, chairman and chief executive officer of BMV Group, which owns MexDer and Bolsa Mexicana BMV. "North to south, the changes in volatility implied by normal capital flows create interesting possibilities to use MexDer to diversify financial instruments and tap new markets ... Markets that are fully integrated through CME Globex will create value for investors in both countries."

"We are confident in growth," concludes Gloria Roa, director, BBVA Bancomer Derivatives. "Seminars and courses here in Mexico will increase demand for commodity derivatives. North to south, customers abroad will be able to trade on MexDer using CME Globex platform they are familiar with. It makes it very, very easy for foreigners."



# STRENGTH OF CONTINUITY

Over its storied lifetime, the Dow Jones Industrial Average has matured into one of the world's most widely quoted stock indexes. While its strong track record as a balanced, cross-sector representation of the U.S. market is a key feature, the index also provides global perspective, with a significant portion of the component companies' revenues derived outside the United States.



*John Prestbo, editor and executive director of Dow Jones Indexes, provides a look at the ubiquitous index and how it reflects the evolution of U.S. equity markets.*

Some people might inaccurately associate a centenarian with diminished usefulness. Consider the Dow Jones Industrial Average (DJIA), which turns 115 years old this year. It would be flawed logic for one to assume the index is outmoded. To the contrary, the DJIA's central strength has been its ability to evolve with economic trends and globalization.

The DJIA is as relevant and vibrant today as it has been for the past 115 years, a track record unequalled by any other cross-sector index. The DJIA is the most quoted measure of

the U.S. stock market globally, and it continues to answer the question, "What did the market do today?"

So while the DJIA exhibits a strength of continuity, it is likewise an example of the elegance of simplicity drawn from components that are immediately recognizable. By using highly liquid components that trade frequently it is able to accurately incorporate new, recent pricing to measure market movements while providing a diversified sector view.

The DJIA is price-weighted, which means the market price of each stock determines how much weight it carries in the DJIA. Price was about all that Charles H. Dow had to work with in the late 19th century to compute an index value on a daily basis. He constructed his index so that a \$1 move in any component stock has the same influence on the index value.

“THE DOW JONES INDUSTRIAL AVERAGE’S CENTRAL STRENGTH HAS BEEN ITS ABILITY TO EVOLVE WITH ECONOMIC TRENDS AND GLOBALIZATION.”

With the evolution of markets, the DJIA’s weighting method is less unusual. Hundreds of indexes boast “alternative” weighting – by a component company’s sales, or dividend payout or various blends of “fundamental” factors such as earnings growth, cash flow and so on. Some of these are methodologies intended to beat the market, while others profess a whole new way of viewing and tracking the market.

WHAT CAN 30 STOCKS TELL US?

With 30 component companies, the DJIA is able to remain vital on the global stage by offering visibility across industries. This remains at the heart of the index just as it was at its inception. The basic concept behind the DJIA is to use a relatively few stocks of big, stable, prominent companies as a microcosm of the broader market. This stability is also what keeps the DJIA relevant. After all, if the index were based on a poor design, I would not be writing about its 115 years of existence.

With 30 stocks, the DJIA’s coverage is significant – accounting for 24 percent of the total U.S. market value today, having gained 7 percentage points since 1996. (The high point over the past 15 years was 27.5 percent during the market collapse of 2008.)

Companies whose stocks are in the DJIA have their roots deep in the economic soil not just of the United States, but the rest of the world as well. Nothing of economic consequence can happen without these stocks – these stocks’ prices – feeling it. Approximately 43 percent of the DJIA companies’ revenue is generated outside the United States, and

that includes two, AT&T Inc. and Verizon Communications Inc., which essentially have no non-U.S. sales. At the other end of the scale, Intel Corp. has the most non-domestic revenue, 85 percent, followed by Coca-Cola Co. and Caterpillar Inc., both at 68 percent.

Indeed, there is much to be said for the discipline that the 30-stock limit imposes on those who do the choosing. Each stock must be evaluated and considered carefully, on an individual basis in addition to how it works in conjunction with other stocks to reflect the market.

The DJIA has components representing virtually all of the major sectors, and all the component companies are major factors in their respective industries, with their stocks being held by institutional investors and individuals alike. The only one not represented is utilities, for which there is a separate Dow Jones Utilities Average.

While the DJIA has fewer components than its peers, the results that it produces are very consistent with larger indexes. We typically think in terms of correlation – or whether or not the indexes move in the same direction at the same time. The table below reports the correlation of several major market indexes.

The DJIA’s decreasing correlation to the other indexes is explained by the increasing number of small stocks that are included. There are not any small stocks in the DJIA, but there are hundreds in the S&P 500 Index and thousands in the Russell 3000 Index and the Dow Jones U.S. Total Stock Market (TSM) Index. They influence the overall market to a limited

CORRELATION OF DJIA VS. OTHER U.S. INDEXES

The DJIA correlates well with broader indexes. Perfect correlation is represented by 1.0, and high correlation is 0.9 and above.

	DJIA	S&P 500	RUSSELL 3000	DJ US TSM*
DJIA	1.0000			
S&P 500	0.9444	1.0000		
RUSSELL 3000	0.9271	0.9933	1.0000	
DJ US TSM*	0.9145	0.9865	0.9977	1.0000

Based on monthly price-return data from Dec. 29, 1995 to Dec. 31, 2010  
\*Based on full marketcap

degree – and there are periods when small stocks are much in favor, such as the period from 2009 to 2010 – but they do not move the DJIA.

So, the DJIA lags a bit when small stocks are in ascendancy, but then excels as big stocks take center stage. When the market heads south, small stocks typically receive the worse battering, which means the DJIA falls less than the other indexes. In 2000-2003, for example, the DJIA dropped 37.85 percent while the S&P 500 lost 46.98 percent; in 2007-2009, the DJIA sank 53.78 percent vs. the S&P 500's 56.78 percent decline.

These differing performances even out over time. Over the past 24 years, which is the life span of the youngest comparative index, the DJIA's annualized return is 8.02 percent compared with 7.26 percent for the S&P 500, 7.41 percent for the Russell 3000 and 7.45 percent for the Dow Jones U.S. Total Stock Market Index.

Happy birthday, Dow Jones Industrial Average! Keep up the good work.

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**For more, visit [www.cmegroup.com/magazine](http://www.cmegroup.com/magazine) to watch an exclusive interview with John Prestbo.**

*John Prestbo is editor and executive director of Dow Jones Indexes, and chairman of the Dow Jones Index Oversight Committee. Prestbo, who joined The Wall Street Journal as a food, agriculture and commodities reporter in 1964, has co-authored or edited several books over the past 30 years and writes the MarketWatch column, "Indexed Investor."*

## GAINING EXPOSURE TO AN ICONIC INDEX

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Market participants looking to include the Dow Jones Industrial Average's (DJIA) focused, large-cap U.S. equity perspective in their portfolios, or simply take a view on the index's direction, have a number of options for executing their strategy. Dow Jones first licensed its benchmark index in 1997 when futures on the DJIA were introduced. Today, approximately 2,600 products track this storied, blue-chip benchmark. This array of products includes mutual funds, exchange-traded funds (ETFs), futures and options.

"The growth of the DJIA suite of products speaks to the vitality of the index and the level of client interest in the index," notes Scot Warren, managing director, equity index products and index services at CME Group. "Products that track the DJIA, which come in a wide range, provide market participants with flexible, efficient methods for executing their strategies."

Futures offer a capital-efficient way to gain exposure to or take a view on the DJIA. The first Dow Jones futures contract was launched in October 1997. Since then, the Dow Jones Index suite has expanded to include a mini-sized Dow \$5 and a Big Dow DJIA \$25 contract, enabling small and large market participants the opportunity to take a position based on the performance of the DJIA.

For those looking to track the DJIA, ETFs are a popular option. Among the largest is the SPDR Dow Jones Industrial Average ETF (DIA), which has about \$9.6 billion in assets, as of the end of April 2011, and an average daily volume of more than 10 million shares. Those who wish to take a short-term view on the DJIA often use leveraged or inverse ETFs. These funds seek a return that corresponds to a multiple of, or the inverse of, the index's daily performance.

Several investment products take a twist on the DJIA. In the early 1990s, money manager Michael O'Higgins, author of *Beating the Dow*, began advocating an investment strategy based on holding the 10 DJIA stocks with the highest dividend yield. Over the years, a number of investment vehicles were launched which followed this philosophy. Indeed, this investment strategy proved so popular that in 2001, Dow Jones Indexes launched the Dow 10 Index.



**SOWING PROMISE**

**AT THE**



# BLACK SEA

Once again, the Black Sea has become a vital source of food for the world's markets with a quarter of global wheat shipments coming from this region. With exports stretching from South Korea and Japan in the East to Brazil in the West, the Black Sea is no bit player. Market expert Alexei Gavrilov explains this market comeback.



SINCE THE FALL OF THE SOVIET UNION IN 1991, the Black Sea region, which includes Ukraine and Russia, has returned to its historical place as a breadbasket. In addition to being a significant wheat exporter, it has also become a major player in the feed-barley market. Even corn exports are starting to build. And as a hungry world wants more food, the region will only grow in importance in coming years. It is considered one of the biggest underdeveloped agricultural areas as it has potential to significantly boost output and exports.

One symbolic example of how far the region has come was the January 2011 election of Alexei Gavrilo as president of the 133-year old Grain and Feed Trade Association (GAFTA), an international non-governmental trade body. Not only is Gavrilo GAFTA's first Ukrainian president, but as head of Ramburs/United Grain Group, he was the group's first Ukrainian member. He witnessed the development of the country's post-communist grain industry first-hand, having started as a shareholder in the now-defunct Ukrainian Agrarian Exchange in 1994.

**GAFTA Guidelines** London-based GAFTA was founded in 1878, and provides several functions for its members including detailed contracts for buyers and sellers, education and lobbying efforts. GAFTA's contracts are minutely detailed to provide clarity in every aspect of physical cash grain business for buyers and sellers at every step in the process.

The contracts, which cover everything from grain quality to vessel stipulations and beyond, might look like over-regulation to an outsider, but these points exist for a reason. "When there are volatile price movements and one party tries to escape and not fulfill the contract, all of these little details come into play," Gavrilo explains.

GAFTA has trained arbitrators and judges to handle contract disputes, and those can be settled more quickly than going through national courts, he adds.

The group also offers educational courses worldwide about the grain industry, including working with the United Nations' Food and Agriculture Organization. Because it is a long-established non-governmental organization, it can offer governments an objective overview of an agricultural situation, Gavrilo says, and their voice is heard when it lobbies international groups like the World Trade Organization.

The grain industry in the Black Sea region has changed greatly since Gavrilo started in 1995. He joined GAFTA around 1996 as its initial Ukrainian member and now there are 70 Ukrainian member-companies.

Black Sea grain production also has increased abundantly, from even only a few years ago. "Five years

ago, 40 million metric tons (mmt) of total production was considered a bumper crop," Gavrilo states. "Now it's considered dangerously low."

As the region's coarse grain and wheat production expands, the industry is looking to improve its risk management ability. Corn can be easily hedged via futures, Gavrilo explains, but wheat cannot. Black Sea producers and end-users are keen to have a wheat futures contract that would meet their specific needs, but nothing has developed.

While Gavrilo believes the current Ukrainian government understands the need to hedge, he notes that there has been no regulatory activity beyond that.

"We have a long way to go," Gavrilo notes. "We have to think how a Black Sea wheat contract would react to prohibitions and bans. That's the number one issue. But there certainly is interest in a Black Sea wheat contract."

Although the grain industry has long known of the growing importance of the region, it was not until last year that the outside world took notice. A devastating drought decimated wheat and coarse grain output from Russia, which eventually banned exports. Ukraine saw some crop shortfall due to



*Although the grain industry has long known of the growing importance of the region, it was not until last year that the outside world took notice.*

drought, but not nearly on the scale as their neighbor. Yet as prices rallied sharply last summer, Ukrainian officials worried that much of its grain would be exported, the government eventually put prohibitions on foreign sales.

Details of the production drop can be seen in the U.S. Department of Agriculture's (USDA) World Agriculture Supply and Demand Estimates. In the 2009-2010 marketing year, prior to the drought, Russian wheat production was estimated at 61.77 mmt and Ukrainian wheat production was pegged at 20.87 mmt. For perspective, the U.S. total wheat crop that year was 60.37 mmt.

For the 2010-2011 marketing year, which includes the drought's impact, the USDA estimated Russian production at 41.51 mmt and Ukrainian production 16.84 mmt, according to data as of May 2011. The total 2010-2011 U.S. wheat crop was seen at 60.10 mmt.

If normal weather returns to the region, there are hopes the Black Sea region's cereal crop will rebound for the current growing season. Of course how quickly the region returns to the world market in a significant manner will be in part determined by Mother Nature – and governments.

In the Ukraine, crops planted in the fall and harvested in the summer, known as winter grains, should be normal: "We have an optimal moisture supply," Gavrilo reports. "They're in much better condition than last year. Winter grains should be fine. We had minimal winterkill, which is unusual."

**Harvest outlook** It is too soon to talk about the spring-planted crops, other than to say they are off to a late sowing because of the cold early-spring weather, he says.

Yelena Skrynnik, Russia's farm minister, was widely quoted in the media in March 2011 saying the country would review its ban on grain exports at the end of September or October when the harvest comes in. Gavrilo says he is not optimistic that Ukrainian exports will return to normal soon. Since last year's prohibition, foreign sales are still regulated by quotas and licenses. He says there are some options being discussed about how to regulate grain exports for the second half of the year but, as of this spring, these were still in debate.

The current export scenarios aside, there is excitement in the grain industry about the potential for more agricultural production in the region, and

by extension, exports. Even under the Soviet Union, Ukraine produced more grain than it consumed and usually sent the extra to Russia for livestock feed. With the breakup of the Soviet Union, collective farms were disbanded, many of those herds were culled, and additional grain became available to sell.

Since then several agricultural companies have moved in to buy land and implement modern technologies. Gavrilo estimated about 15 publicly traded companies in the Ukraine farm more than 100,000 hectares there, a trend he expects to continue. Even though there is so much land under cultivation now, not all the arable land is being used.

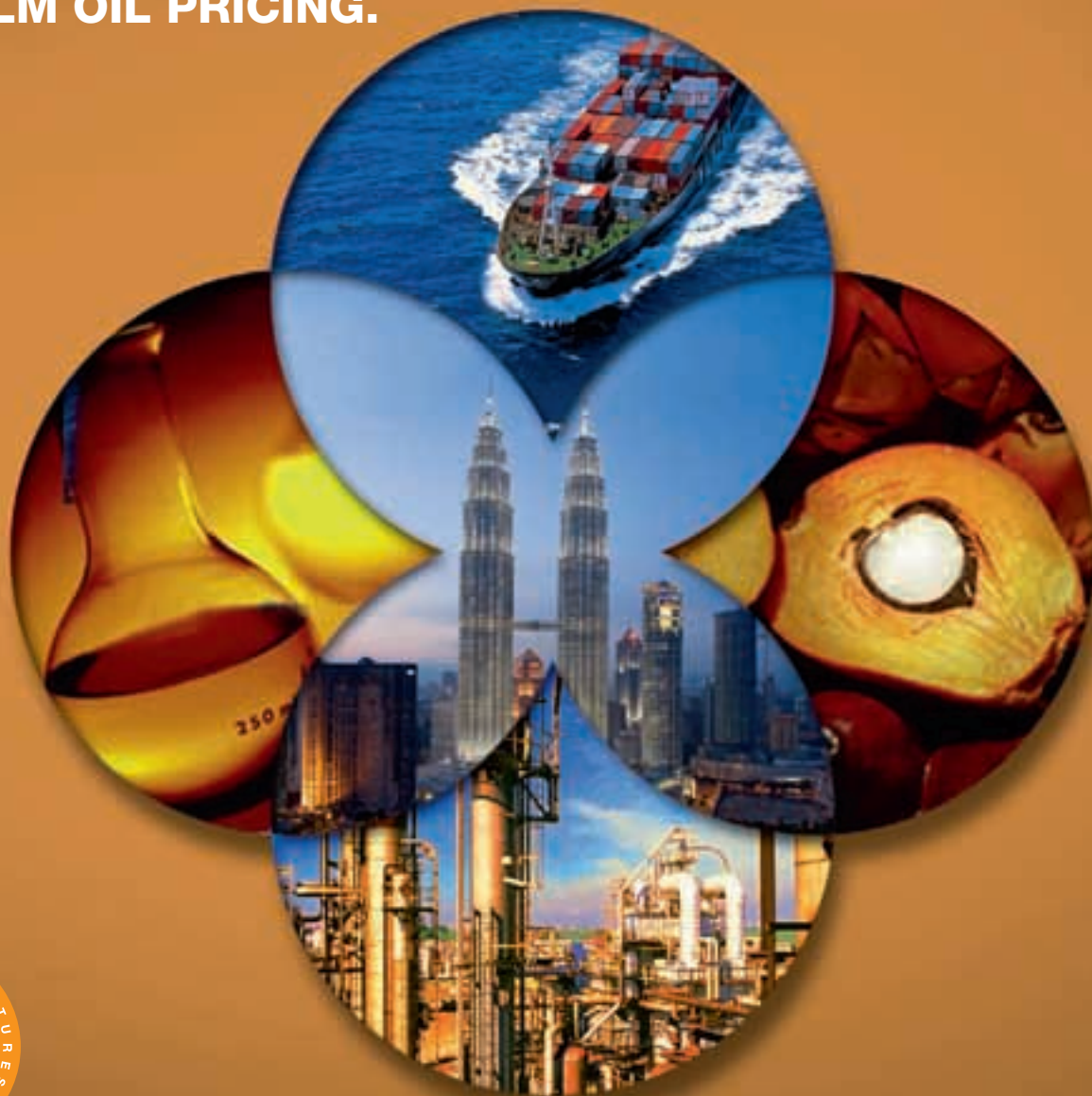
Crop yields are ripe for improvement as local yields are lower than yields in the United States and in Europe, Gavrilo says.

In the next 10 years, assuming normal weather, Gavrilo says he would expect Russian and Ukrainian corn exports to double or triple from the current 6-7 mmt shipped and combined current wheat exports of 25-30 mmt to rise to 50 mmt.

"I would see no issue with that," Gavrilo concludes. "Trends in yields are up and technology is improving."

# MALAYSIA.

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MOVING STRAIGHT THROUGH TO

**CLEARING**

**AS OVER-THE-COUNTER MARKETS** transition into clearing, straight-through processing may be just the ticket to not only modernize these markets, but also make them more efficient, diverse and auditable.

Straight-through processing (STP), which automates the lifecycle of a trade from execution through settlement, is catching on as players in the over-the-counter (OTC) markets push toward modernizing and improving the current process. The push for STP in these markets truly began in 2005, according to Kevin McPartland, principal with the Tabb Group, a financial markets research and consulting firm. McPartland notes that this development in the OTC markets is paralleling how the futures and equities markets evolved and became more electronic over the past decade. "In a lot of ways, we've been through this before," he says. "The economics are somewhat different, and the players are different."

Roger Rutherford, CME Group's managing director of foreign exchange (FX) products, points out, "Everything in the futures world is very STP."

Ever-tightening regulations and greater pressure to increase volume in markets, which are seeing lower margins than in the past, are encouraging firms and clearing houses to embrace STP as a means to upgrade their processes and garner new efficiencies just as other markets have done, according to McPartland. "There's been more focus in the OTC markets on clearing and settlement," he says.

"STP is not such a novel concept," agrees John Jay, senior analyst at Aite Group. "But what matters is how it's done." In addition to making the trade process more efficient and potentially increasing volumes, Jay also believes that the more automated approach can minimize post-trade errors and help reduce risk exposure.

STP mitigates risk by lowering uncertainty by processing trades more quickly – trade details are matched in seconds and cleared through central parties – so that traders know immediately if they have an exception or a broken trade. For member trading firms, that means fewer headaches; and for the central counterparty clearing houses (CCPs) involved, offering effective STP can create a significant competitive advantage, Jay adds.

While STP requires a lot of market data and more complex connections, he believes that automated processing has already reached the place where the over-arching industry is headed. "It's a natural evolution," Jay explains.

Proponents also contend that STP will offer better record-keeping of the trade process and, therefore, a better audit trail for CCPs and bilateral

participants. This could also prove useful to accommodating regulators looking for more transparency in the execution of contracts.

While embracing STP may prove more difficult for some financial firms than others, some companies have already been positioning themselves for the advent of more automated systems. Nick Sollinger, chief marketing officer for Traiana, a developer of post-trade technologies and solutions, says that FX banks are very well-prepared: "Many of them have made an immense investment to move their clearing process to real time."

Through its Harmony network, Traiana provides STP connectivity to central counterparties including CME Clearing for the FX market, as well as global banks, broker/dealers, buy-side firms and e-trading platforms. On the Harmony network, executing banks, prime brokers, execution platforms, and CCPs for FX are connected and matched. In March 2011, CME Clearing became the first CCP to connect to Traiana's network.

"We are working closely with our clients and partners to expand these services to cover CCP-related flows while maintaining the integrity of the connection and a consolidated view," Gil Mandelzis, Traiana's chief executive officer, said in a statement announcing the partnership with CME Clearing.

Financial firms and their service providers face the immense challenge of determining "how to map the traditional OTC world, which works really well, to electronic," according to Sollinger.

"It is very complicated ... but if you ask anyone, they're doing as much as they can to get ready," says Tabb Group's McPartland. The issue of getting systems fully prepared for STP could be further complicated by the fact that regulations surrounding these processes have not yet been decided, he adds.

As regulatory reforms continue, McPartland says, some rules that will affect STP may pass this summer. Others, however, may not be decided until 2012. "They can't go 100 percent in until the rules are finalized," he explains. "All the market participants will need to work the kinks out, and we have no idea what could throw a wrench in here as well. It's certainly going to be an ongoing change."

Rutherford of CME Group says he met recently with a leading group of STP vendors. "They are excited and know there's a lot of work ahead for them."



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*Stock-picking competitions have been a staple at colleges and universities for many years. In a similar vein, the CME Group Commodity Trading Challenge provides students with a learning experience that could turn into a career.*

From its start at the University of Houston a decade ago, the CME Group Commodity Trading Challenge has grown into a global competition. In 2011, more than 700 undergraduate and graduate students from 85 universities in North America, Europe and Asia participated in the four-week electronic-trading competition. Students work in teams trading crude oil and gold futures on the CQG simulated trading platform, a leading front-end trade-routing platform.

*“The skills we learn at university can only take us so far, and it is competitions like this that allow for the real education to begin.”*

*—James Madigan, Lund University*

“This event gives the students hands-on exposure to what trading is like on a professional platform and helps them develop a better understanding of how the markets react in real time,” says Kate Darcy, director of market education at CME Group. “Many of the student participants discover that they have a passion for trading and want to pursue it as a career. In fact, some CME Group customers use the event as a way to recruit new traders. Previous participants have gone on to work for companies such as British Petroleum, Valero and MBF Clearing.”

This year’s national finals were held March 6-8, with Rice University winning the competition and Sweden’s Lund University coming in second place. Scholarships are awarded to the top four teams, and members of the winning team have the opportunity to interview for an internship with a CME Group member on the New York trading floor. For a more complete list of the final results, please see the graphic at the right.

#### VALUABLE EXPERIENCE

“Being the first non-U.S. school to make it to the finals in this global competition is an amazing honor, but the real reward is the experience and knowledge we acquired in just a few weeks time,” says James Madigan who, together with teammate Sigge Fagerström, formed the Lund University team. “The skills we learn at university can only take us so far, and it is competitions like this that allow for the real education to begin. We spend all day learning theoretical background of how markets should react, but until you experience how those theories apply to the market it feels meaningless.”

In addition to the electronic competition, students can also participate in individual open out-cry competitions in Houston and New York City, both of which were held in April 2011. More than 150 students participated in these two very unique events, where they received a truly hands-on experience of what trading in a pit might be like. They were also able to network with other students and industry sponsors.

For students who did not have the chance to participate in this year’s Trading Challenge, CME Group also offers free, real-time simulated trading programs, which anyone can use.

To learn more about trading simulations and upcoming competitions, visit: [www.cmegroup.com/tradesim](http://www.cmegroup.com/tradesim) and [www.cmegroup.com/tradingchallenge](http://www.cmegroup.com/tradingchallenge).

#### 2011 Trading Challenge Winners

- 1<sup>ST</sup> **Rice University**  
Final balance: \$788,740.00
- 2<sup>ND</sup> **Lund University**  
Final balance: \$475,510.00
- 3<sup>RD</sup> **California State University Fresno**  
Final balance: \$452,035.00
- 4<sup>TH</sup> **Clark University**  
Final balance: \$300,915.00
- 5<sup>TH</sup> **Ramapo College of New Jersey**  
Final balance: \$261,120.00
- 6<sup>TH</sup> **Rollins College**  
Final balance: \$214,547.50
- 7<sup>TH</sup> **Columbia University**  
Final balance: \$212,535.00
- 8<sup>TH</sup> **Vanderbilt University**  
Final balance: \$208,140.00
- 9<sup>TH</sup> **University of Bridgeport**  
Final balance: \$198,002.50
- 10<sup>TH</sup> **Polytechnic Institute of NYU**  
Final balance: \$170,892.50



## Advancing the commodities marketplace

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# CURRENT PULSE

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## CME Clearing Europe

### CME Group Launches European Clearing House

CME Clearing Europe, which began operating May 6, offers services as a multi-product clearing house for non-U.S. customers. Headquartered in London, the clearing house currently trades more than 150 over-the-counter (OTC) energy and commodity derivatives.

"The start of clearing at CME Clearing Europe is timely in light of the need for enhanced risk management in commodity markets and the imminent legislative change mandating the clearing of OTC derivatives," says Andrew Lamb, chief executive officer of CME Clearing Europe. "While the initial focus of our product expansion will be on commodity products – energy, metals and agricultural – we aim to introduce clearing for OTC financial derivatives, beginning with interest rate swaps, in parallel with the deepening of the commodity clearing."

The new clearing house allows customers to do business in whichever jurisdiction suits their needs. At launch, CME Clearing Europe was clearing eight OTC contracts based on the Dubai Mercantile Exchange's Oman crude oil futures. The clearing house will also guarantee an OTC derivative based on rapeseed oil prices.

Learn more about CME Clearing Europe at [www.cmeclaringeurope.com](http://www.cmeclaringeurope.com).

### Adaptable Crops

The U.S. Department of Agriculture (USDA) is investing \$60 million to study the effects of climate change on crops and forest production. The project will attempt to cultivate crops and forests that adapt better to climate change, improving the management of essential crops such as corn, wheat and lumber.

The USDA's National Institute of Food and Agriculture is seeking to determine how

we can ultimately prevent food shortages in certain crops that could be affected by shifts in climate. If a historically wet, cool area gradually takes on dry and hot characteristics, the area would require a variety of crops that are adaptable to such changes in the climate.

Read more at [www.nifa.usda.gov](http://www.nifa.usda.gov).



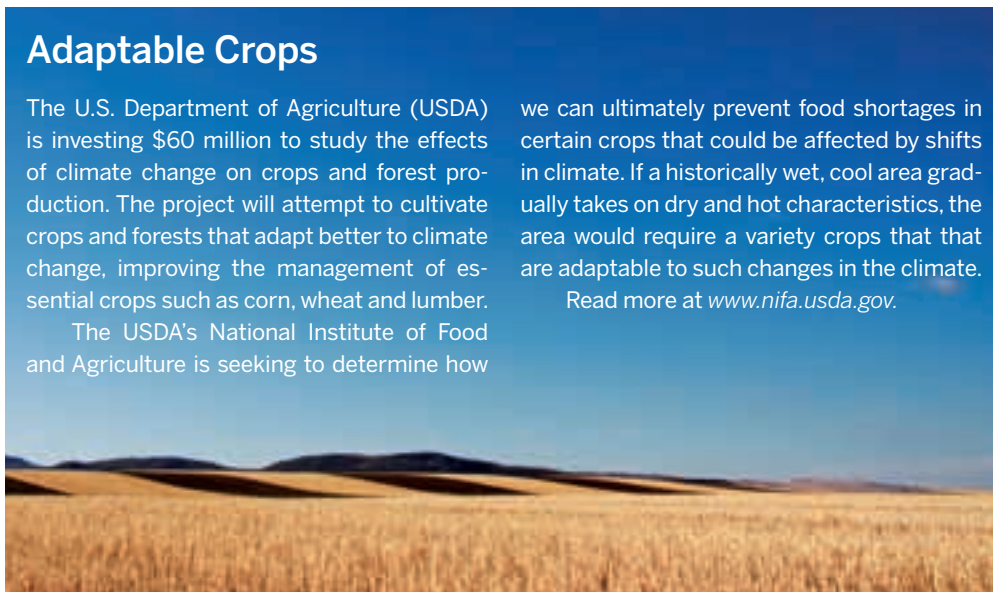
### Sovereign Bonds Simplified

CME Group began offering sovereign yield spread (Sovys) futures on May 23 to help investors access and manage exposures to various countries' government bond markets. The initial launch of Sovys futures incorporates bonds from the most liquid sovereign debt markets, including the United States, Germany, France, Italy, the Netherlands and the United Kingdom. The contract allows for simpler, more cost-effective and more efficient trading and monitoring of sovereign bond spread positions.

Key features and benefits of the new contract include the following:

- Sovys wrap a sovereign yield spread exposure into a single futures contract – with no need to execute and manage individual legs in cash bond/repo markets or across multiple futures exchanges.
- Sovys make trading and monitoring of sovereign yield spread exposures simpler, more cost-effective, and more capital-efficient than ever before.
- Sovys are cash-settled and trade exclusively on CME Globex.

To learn more about the contract, visit [www.cmegroup.com/sovys](http://www.cmegroup.com/sovys).



## Weekly Grain Options Contracts Begin Trading

CME Group recently launched weekly grain options contracts on corn, wheat and soybeans futures, which began trading May 23. Agricultural customers can be particularly exposed to short-term event risk – a relevant upcoming government report or weekend weather during the growing season, for example. The new weekly corn, wheat and soybean options, combined with CME Group's existing monthly and serial options, can provide customers with much greater flexibility to manage risk associated with these events, while customers also benefit from the lower cost associated with short-dated options.

Weekly grain options on corn, wheat and soybean futures are American-style and are listed for electronic trading on CME Globex as well as open-outcry. Expirations will be every Friday, except those Fridays when standard or serial options are scheduled to expire. CME Group will list three weekly grain options concurrently for each futures contract.



## Supplying Relief

In response to the humanitarian crisis caused by the tsunami and earthquakes in Japan, the CME Group Community Foundation sponsored a fundraising drive to collect donations from employees, members and clearing firms to benefit the relief effort.

Through fundraising and the CME Group Community Foundation's contribution match program, a total of more than \$130,000 was allocated to the American Red Cross and AmeriCares, two leading organizations on the ground in Japan that are committed to the rebuilding process.

Learn more about the CME Group Community Foundation at [www.cmegroup.com/company/corporate-citizenship/cme-foundation.html](http://www.cmegroup.com/company/corporate-citizenship/cme-foundation.html).

## Co-Lo Plans Gain Speed

Plans are being finalized for CME Group's new co-location data center. The space will allow trading firms to co-locate trading systems alongside CME Group's trade-matching engines for all products traded on the CME Globex electronic trading platform, providing the lowest possible latency connection for customers. Scheduled to launch in early 2012, the environmentally "green" facility will provide more than 428,000 square feet of space, served by two 138,000 volt transmission quality utility services from two separate generation plants.

"We view this as an important offering in the overall enhancement of our business and we made the strategic choice to build out our facility to accommodate demand," says Bryan Durkin, CME Group's chief operating officer. "As marketplaces become more automated, latency becomes a driver of demand across our user base of banks, proprietary trading firms, hedge funds and third-party providers."

To learn more about CME Group's co-location services, visit [www.cmegroup.com/globex/trading-cme-group-products/co-location-services.html](http://www.cmegroup.com/globex/trading-cme-group-products/co-location-services.html).



## International Incentives

New international traders at CME Group are now eligible for expanded benefits. The New Trader Incentive Program, formerly the Emerging Market Incentive Program, provides discounted access to various products for CME Group's growing global customer base. The program continues to evolve as demand grows for benchmark products during non-U.S. trading hours. The program took effect May 1 and will extend to April 30, 2012. For a list of eligible countries and requirements, visit [www.cmegroup.com/company/membership/international-incentives.html#NTIP](http://www.cmegroup.com/company/membership/international-incentives.html#NTIP).

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