
US Futures Trading 2012: Buy-Side Demands in an Evolving Marketplace

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Executive Summary

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Futures markets are about to become a lot more competitive. As buy-side portfolio needs evolve and managers integrate futures into their strategies, trading futures becomes a battle between trading smart and trading efficiently. With high-frequency strategies and market-making firms using low-latency tools to trade, the competition between size and speed is evolving.

Hedge fund speculators are also once again on the rebound. Traditional investment managers facing increased competition from hedge funds and passive investment strategies are running more-complex portfolios. And pension funds are increasing their allocations to CTAs, as investing in futures has the potential to provide better alpha returns as well as capital preservation.

Larger buy-side firms will invest in automated solutions that help them to trade more efficiently, using tools that can both minimize trading costs and help them execute more-complex strategies. For the sell-side and vendor community, this translates into new opportunities to provide powerful tools for trading, analytics, research and related services that help to support their trading activities.

All of these factors are contributing to volumes. US futures exchanges announced record volumes in 2011 and TABB expects this momentum to carry forward into 2012. Rising volumes will result from a number of factors, including more widespread adoption by investment managers, more complex investment strategies by existing users and increased trading of futures based on new indices and asset types.

The regulatory push for centrally cleared and exchange-traded instruments is also adding to volumes, as will provisions within the Dodd Frank Act (DFA) that are transitioning OTC swaps trading to more transparent swap execution facilities (SEFs). As swaps trading becomes more automated, the ability of traders to use interest rate futures and other related instruments as part of overall strategies becomes attractive, especially for true correlation and relative value strategies that look to profit from price changes in other asset classes.

Historically, trading US futures traditionally required little execution expertise or special tools. Traders could simply pick up the phone to place an order valued at millions of dollars and get executed nearly instantaneously with minimal

market impact. However, as trading increases, volatility fluctuates, and products evolve, the emphasis on having the right set of tools is more critical.

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For this year's buy-side trading study, TABB Group spoke with 51 head traders of US institutional equity management firms. The interviews were conducted during October and November 2011. We included in many conversations the impact of volatile markets, MF Global, and FCM coverage; commission structures and rates; algorithmic providers and product needs; order allocation across the high- and low-touch trading channels; domestic and foreign trading venues; and liquidity demands.

Table of Contents

VISION	2
TABLE OF CONTENTS.....	4
TABLE OF EXHIBITS	5
HIGHLIGHTS	7
METHODOLOGY.....	10
ELECTRONIC UPTAKE.....	13
ALGO TRADING ADOPTION	14
TO BUILD OR USE OFF-THE-SHELF ALGOS	15
FACILITATING ELECTRONIC ORDER ROUTING.....	16
RESISTANCE TO CHANGE.....	18
MEASURING TRADING RESULTS	19
FCM BUSINESS, NOW OR NEVER.....	22
MARKET OPPORTUNITY.....	24
EVOLVING COMMISSION LANDSCAPE.....	24
FCM SELECTION.....	27
EXECUTION DILEMMA	29
BATTLE FOR MARKET SHARE	31
CLEARING RELATIONSHIPS	33
SEEKING LIQUIDITY	35
US EXCHANGE LANDSCAPE.....	37
GOING GLOBAL	37
CONCLUSION	41
ABOUT.....	42
TABB GROUP	42
THE AUTHOR	42

Table of Exhibits

Exhibit Number	Title	Page
1	How do the following factors influence your futures trading activities?	2
2	Buy Side Order Flow Allocation by Channel (2012/2011)	7
3	US Futures Trading Volume, 2001-2011	8
4	Proportion of Futures Asset Classes, 2011 vs. 2001	8
5	Segregated Funds Held by FCMs	9
6	FCM Commission Revenue (in \$ millions)	10
7	Participant Segmentation by Firm Type	10
8	Participant Segmentation by Percentage of Futures US ADV	10
9	Participant Segmentation by Assets under Management (AuM)	11
10	Participant Segmentation by ADV, Commissions, Total AuM	11
11	Order Flow Allocation by Channel, 2011/2012e -by Participant Type	13
12	Do You Use Futures Algos Today? Will You Use Algos in 2012?	14
13	Have You Ever Created Your Own Algos?	15
14	If No, Would You Consider Building Your Own Algos?	15
15	Which Futures Broker Algos Do You Use?	16
16	What Futures EMS Do You Use?	16
17	Why Don't You Use Futures Algos?	18
18	What Are Your Top Challenges When Trading Futures Electronically?	19
19	Did you use Futures TCA in 2011? If You're Not Using Futures TCA, Would You in 2012?	20
20	Who Provides Your Futures TCA?	20
21	How Do You Know if You Get a Good or Bad Execution?	20
22	Are Futures Brokers Marketing Anything New?	22
23	If Yes, What Are Brokers Marketing?	22
24	How Much Did you Pay in 2010 Commissions? Sample Average (\$000s)	24
25	Blended "All-In" Commission Cost per Contract (in dollars)	25
26	Why Do You Trade with a Particular FCM?	27
27	Average Number of Execution Brokers (all participants)	29
28	Average Number of Clearing Brokers (all participants)	29
29	Who Are Your Execution Brokers (all participants)?	30
30	Who Are Your Clearing Brokers (all participants)?	30
31/32	Top 25 FCMs by US Segregated Account Balance: November'2011 versus November'2010	31
33	Who are Your Top 5 Futures Executing Brokers (Long-Only)?	31
34	Who are Your Top 5 Futures Executing Brokers (Hedge Fund)?	32
35	Who are Your Top 5 Futures Executing Brokers (CTA)?	32
36	Who Is Your Top Clearing Broker (by participant)?	33
37	What Would Be an Incentive to Trade at a New Exchange?	35
38	US Equity Futures Average Daily Volume (Number of Contracts)	36

39	US Interest Rate Futures Average Daily Volume (Number of Contracts)	36
40	Which US Futures Exchanges Do You Trade At?	37
41	How Much of Your Daily Futures Trading Volume is US versus Non-US?	37
42	How Many International Futures Exchanges Do You Trade At?	38
43	Which International Exchanges Do You Trade At?	38
44	Are You Planning to Expand International Futures Trading?	39
45	If Yes, Which Markets?	39
46	What Brokers Do You Use (or plan to use) in Non-US Markets?	39