Contents

Foreword by Leo Melamed	ix
Prologue by Terry Duffy	xiii
Acknowledgments	XV
Introduction by Craig S. Donohue	XVİİ
CHAPTER 1 Futures Market Fundamentals	1
What Is a Futures Contract?	2
Overview of Popular Financial Futures Contracts	21
Anatomy of a Futures Transaction	35
Conclusion	41
Notes	42
CHAPTER 2	
Order Entry and Execution Methodologies	43
Open Outcry/Pit Trading	44
Introduction of the CME Globex Platform	46
Trade Matching Algorithms	50
About Options Markets	69
Ex-Pit Trading	73
Conclusion	78
Notes	79
CHAPTER 3	
Role of the Clearinghouse	80
Financial Safeguards	81
Financial Surveillance	89
Default by a Clearing Member	91
Resources Backing CME Group Clearing System	95
Customer Protection	95
Disaster Recovery and Business Continuity	96
Rule Enforcement	96

V

vi		CONTENTS
Financial and Regulatory Conclusion	Information Sharing	99 100
CHAPTER 4 Currency Futures: The First Fi	inancial Futures	101
Evolution of Foreign Exc	hange Marketplace	101
Over-the-Counter Currer	e 1	106
Exchange-Traded Curren		115
Foreign Exchange Marke	t Growth and Trends	130
Conclusion Notes		135 136
		150
CHAPTER 5 Stock Index Futures: The First	Financial Futures	137
Mechanics of Stock Index	Financial Futures c Futures -Traded Funds res tures x Futures x Futures	137
E-Minis versus Exchange	-Traded Funds	142
Pricing Stock Index Futur	res	147
Spreading Stock Index Fu	itures	152
Hedging with Stock Index	x Futures	158
Portable Alpha Strategies Conclusion		163 167
Notes		167
CHAPTER 6	A.Y	
Eurodollar Futures: Interest	ate Market Building Blocks	169
Eurodollar Futures Mark	et	169
Speculating on Shape of Y		180
Term Treasiny/Eurodolla		
Futures and Options		184
Interest Rate Swap Mark	et	194
Growing Up Together		202
Pricing Relationship		205
Hedging Techniques Conclusion		208 215
Technical Appendix: Cor	nplications and Shortcuts	215
for Pricing and Hedgin		216
Notes		229
CHAPTER 7		
Understanding U.S. Treasury I	Futures	231
Coupon-Bearing Treasury		231
Treasury Futures Delivery	y Practices	238

Contents	
Managering Dick of Courses Description	252
Measuring Risk of Coupon-Bearing Securities Risk Management with Treasury Futures	252 254
Macro Hedging with Treasury Futures	262
Hedging Corporates with Treasury Futures	262
Trading the Yield Curve with Treasury Futures	269
Conclusion	276
Notes	277
CHAPTER 8	070
Commodities: Backbone of the Futures Industry	279
What Are Commodities?	280
Grain Markets	293
Livestock Markets Energy Products Precious Metals The Forward Curve Intermarket Commodity Spreading	299
Energy Products	315
Precious Metals	327
The Forward Curve	331
	342
ClearPort Over-the-Counter Clearing Facility	347
Conclusion Appendix: Major Commodity Market Specifications	350 351
CHAPTER 9 Alternative Investment Market Functionals	368
Weather	369
Residential Housing Futures	379
Economic Indicators	397
Conclusion	399
Notes	400
CHAPTER 10	
Fundamental Market Indicators	401
Why These Indicators?	402
Trading Volumes	404
Volatility: Daily Net Change	407
Volatility: Daily High-Low Range	408
Conclusions	412
Appendix: Economic Indicator Descriptions	412
Notes	414
CHAPTER 11	440
Technical Analysis Primer	416
Why Technical Analysis?	416

Interpreting Charts Elliott Wave Theory Intraday Trading Techniques	422 443
Elliott Wave Theory	
•	
	455
Trend-Following Systems	459
Conclusion	471
CHAPTER 12	470
Fundamentals of Option Markets	472
What Is an Option?	472
Mathematical Option Pricing Models	481
Historic and Implied Volatilities	494
Measuring Option Performance	504
Conclusion	513
Conclusion CHAPTER 13 Option Trading Strategies Option Spreads Horizontal Spreads Diagonal Spreads	E1E
Option Trading Strategies	515
Option Spreads	515
Horizontal Spreads	526
Diagonal Spicaus	532
Comparing Verticals, Horizontals and Diagonals	537
Weighted Spreads	538
Volatility-Driven Strategies	544
Specialty Option Strategies	560
Matching Strategy and Forecast	565
Conclusion	566
HAPTER 14 Hedging with Octions	568
Baseline Futures Hedge	568
Buying Protection with Puts	569
Yield Enhancement with Calls	572
In- and Out-of-the-Money Options	575
Matching Strategy with Forecast	577
Collar Strategy	578
Delta-Neutral Hedge	579
Conclusion	581
lbout the Authors and Contributors	583
ndex	587