

Blocks & Crosses in Ag Markets

Analysis of trade between **01/08/2018 – 03/23/2018**

April 5th, 2018

Tim Andriesen, Managing Director, Agricultural Products

Andrew Vrabel, Executive Director, Market Regulation

Fred Seamon, Executive Director, Research & Product Development

What is Relationship Based Trading?

Relationship Based Trading allows for brokers and market participants to have pre-execution discussions around the size, direction and price prior to the execution of a trade. The trade itself can take 2 forms:

Crosses:

A Cross is a transaction type allowed on CME Globex which gives brokers who engage in allowable pre-execution communications the ability to enter a two-sided order on CME Globex. Customers may benefit from improvements to the market in the central limit order book. There is no minimum transaction size or additional eligibility requirement for doing a cross.

Blocks:

A Block is a privately negotiated future, option or combination transaction that is permitted to be executed apart from the central limit order book. Buyer and Seller are matched by a broker and the trade is submitted to CME ClearPort. Block trades must be above a certain threshold size, are restricted to Eligible Contract Participants and must be reported within a short time period after they are executed.

Why Relationship Based Trading?

What are the benefits of RBT to our commercial customers

- ❑ A consistent complaint we have received from our commercial grain customers is a lack of liquidity to execute hedges further back on the curve and orders in less liquid products. RBT's allow brokers and traders to communicate and source liquidity to facilitate execution of these trades
- ❑ Recently, some of our large commercial customers have expressed an interest in being able to execute and roll spreads in greater size than our existing max order size (2,500 contracts). Blocks allow customer to execute transactions in excess of that limit.
- ❑ In some new and nascent contracts, building liquidity through a CLOB has been difficult. Allowing block trades has brought brokers into the market who are building liquidity in these products.

RBT & Price Transparency

Some customer have expressed concerns about price transparency

- ❑ Today there is a “dark” market in ags – the OTC Swap market. These trades are not reported to the broader market in a timely manner* and only larger market participants with ISDA agreements in place with other counterparties can access these markets. We want to bring these trades into the more transparent block market.
- ❑ While blocks are executed off the CLOB, they must be reported within a short period of time. All of these trades are seen by the marketplace within 5 or 15 minutes of the time of execution.
- ❑ In many cases, block trades are executed between a principal and a market maker. The market maker will frequently hedge the transaction in the CLOB market so the flow from that transaction will also be seen and can be interacted with by market participants.

* OTC Swaps must be reported to a Swaps Depository within 2 hours

Overall Number and Percent of Transactions

Are blocks and crosses a significant percentage of the transaction?

	Total Trades	Block Trades	% Total Trades	Cross Trades	% Total Trades
Corn	7,151,953	80	0.001%	345	0.005%
Soybeans	7,489,385	27	0.000%	350	0.005%
Wheat, SRW	4,306,779	22	0.001%	268	0.006%
Wheat, HRW	2,057,518	21	0.001%	27	0.001%
Soybean Oil	3,374,865	12	0.000%	84	0.002%
Soybean Meal	4,243,457	22	0.001%	534	0.013%
Live Cattle	2,864,877	15	0.001%	36	0.001%
Lean Hog	2,103,896	21	0.001%	19	0.001%
Feeder Cattle	725,459	0	0.000%	4	0.001%
TOTAL	34,318,189	220	0.001%	1667	0.005%

Trade Dates: 01/08/2018 – 03/23/2018

Total Trades: Total # transactions across all venues (Futures and Options)

Overall Volume and Percent of Volume

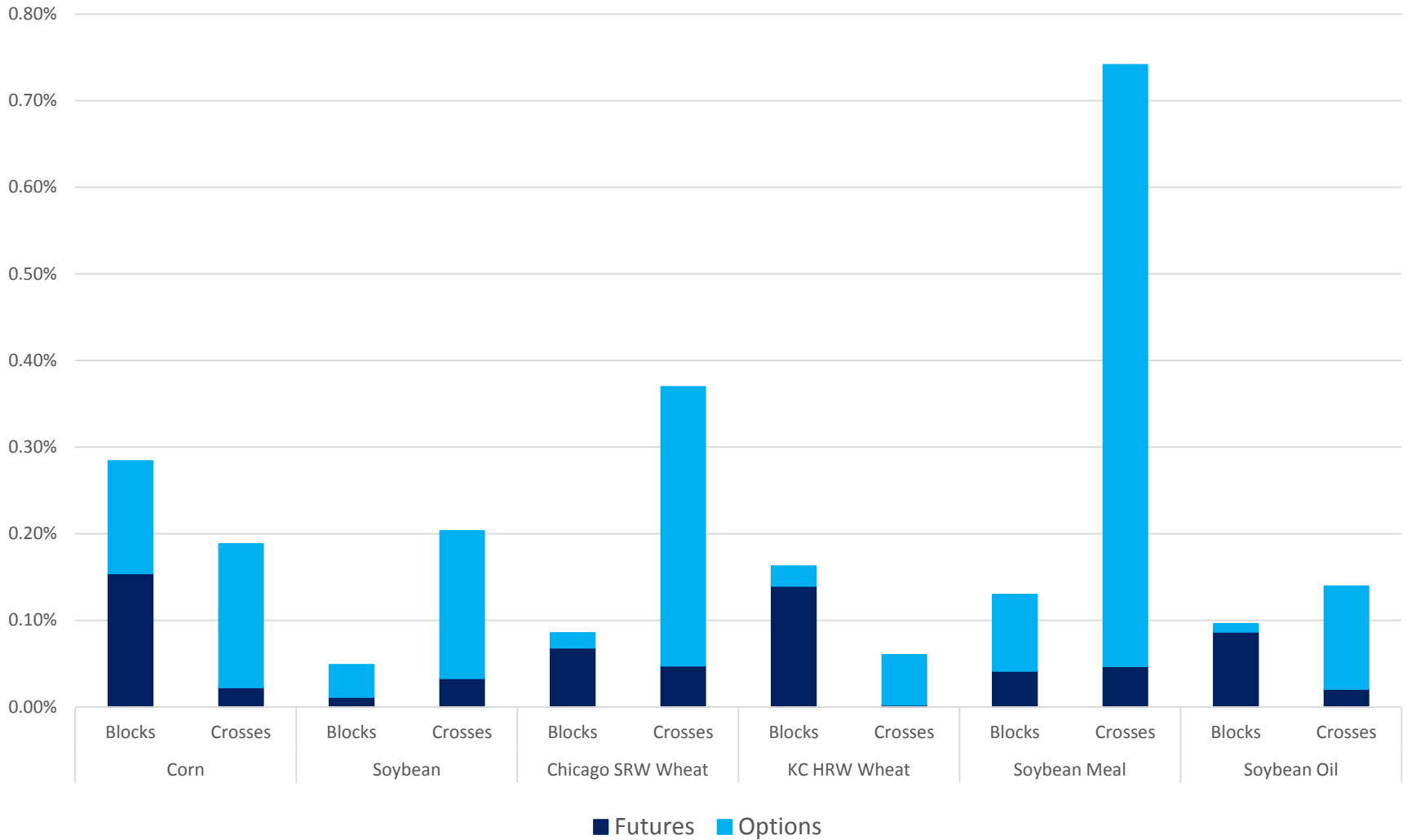
Are blocks and crosses a significant percentage of the volume?

	Total Volume	Block Volume	% Total Volume	Cross Volume	% Total Volume
Corn	28,321,805	80,483	0.28%	53,333	0.19%
Soybeans	19,057,698	9,284	0.05%	38,733	0.20%
Wheat, SRW	10,743,298	9,172	0.09%	39,713	0.37%
Wheat, HRW	4,395,285	7,146	0.16%	2,645	0.06%
Soybean Oil	7,467,915	7,173	0.10%	10,418	0.14%
Soybean Meal	8,426,519	10,929	0.13%	62,475	0.74%
Live Cattle	4,365,988	1,350	0.03%	1,053	0.02%
Lean Hog	3,245,136	3,038	0.10%	1004	0.03%
Feeder Cattle	862,086	0	0.00%	8	0.001%
TOTAL	86,885,730	128,575	0.15%	209,382	0.24%

Trade Dates: 01/08/2018 – 03/23/2018

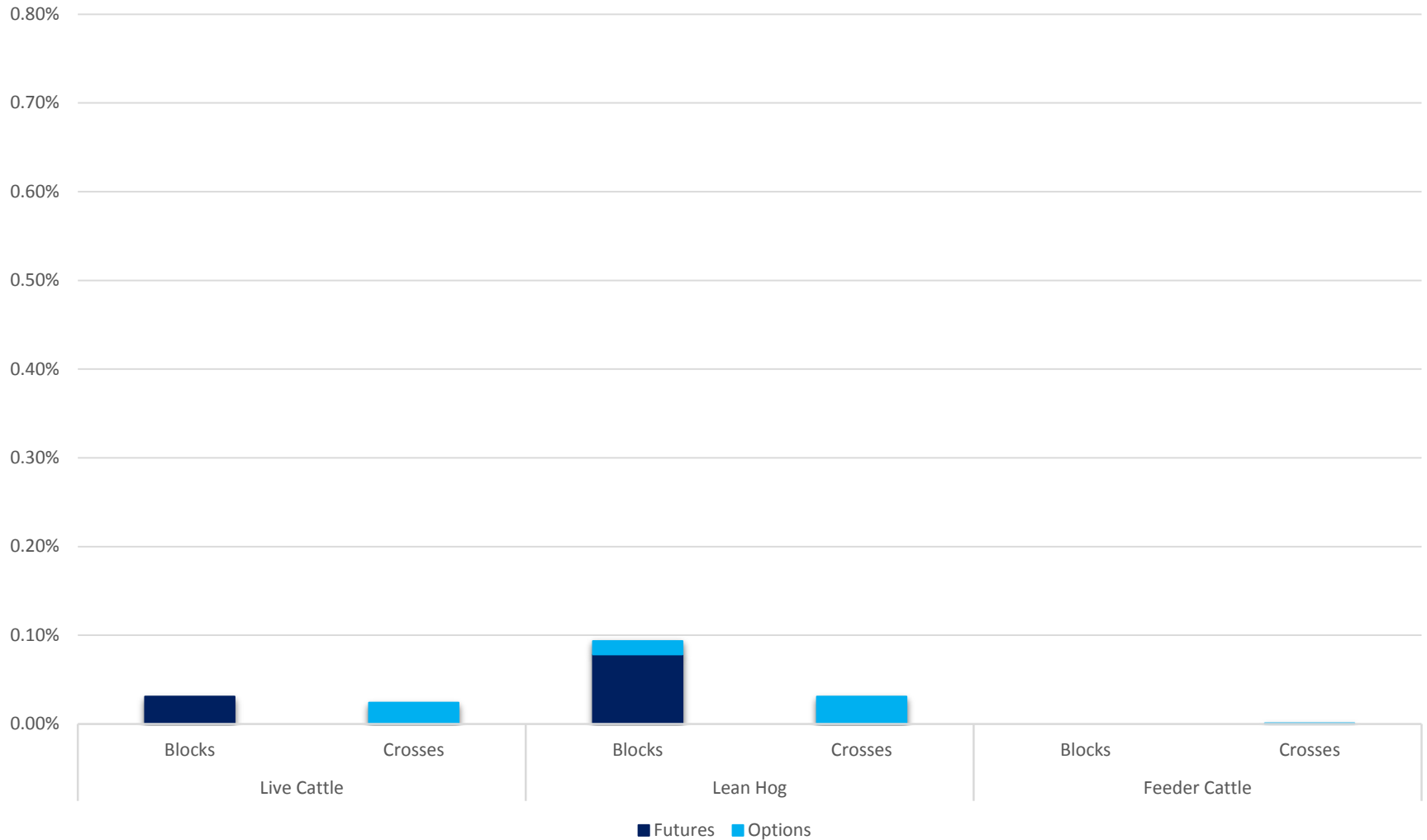
Total Volume: Total volume across all venues (Futures and Options)

Grains: % of Blocks and Crosses Traded by Product



Trade Dates: 01/08/2018 – 03/23/2018

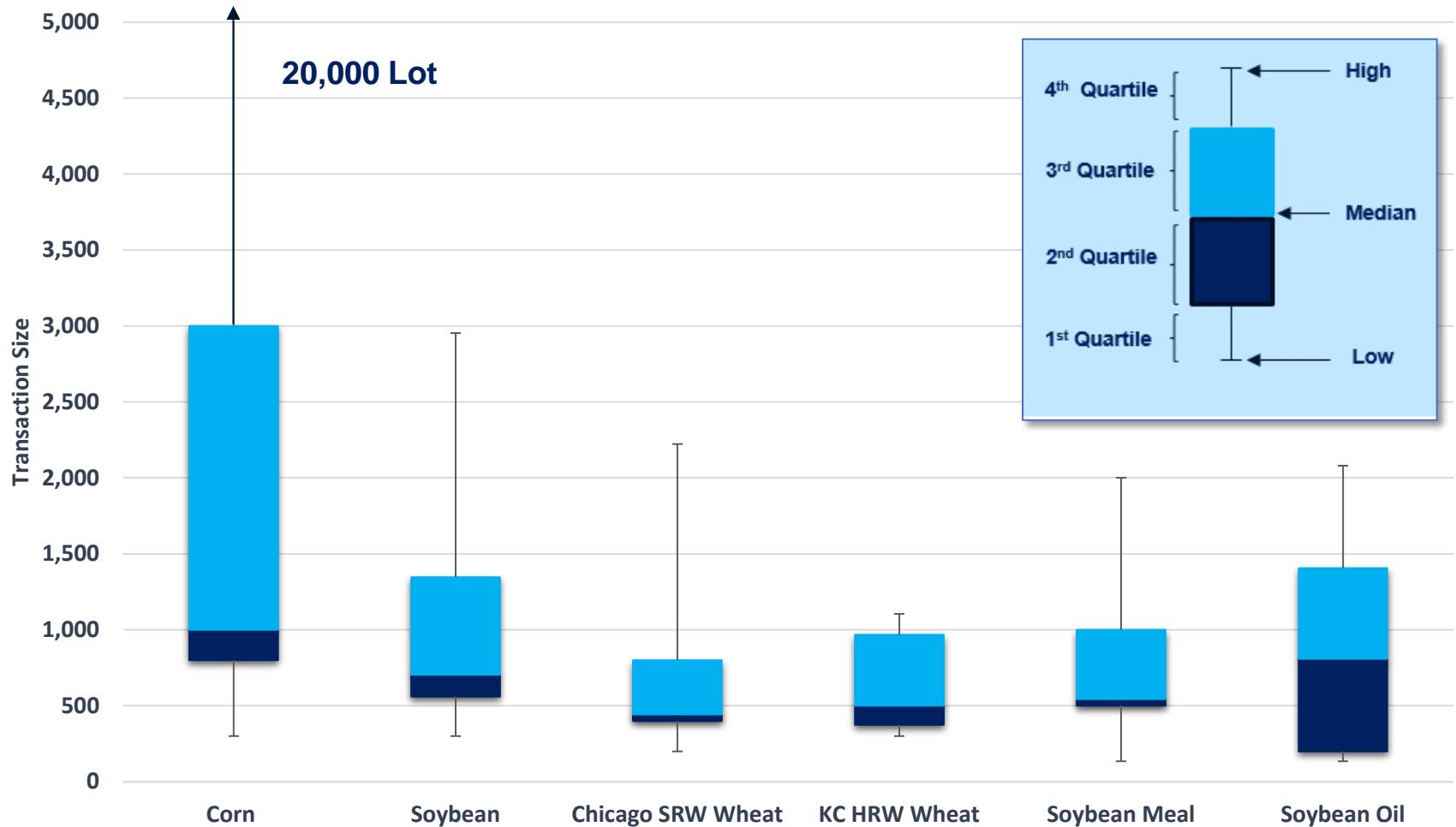
Livestock: % of Blocks and Crosses Traded by Product



Trade Dates: 01/08/2018 – 03/23/2018

Grains: Distribution of Order Sizes by Commodity

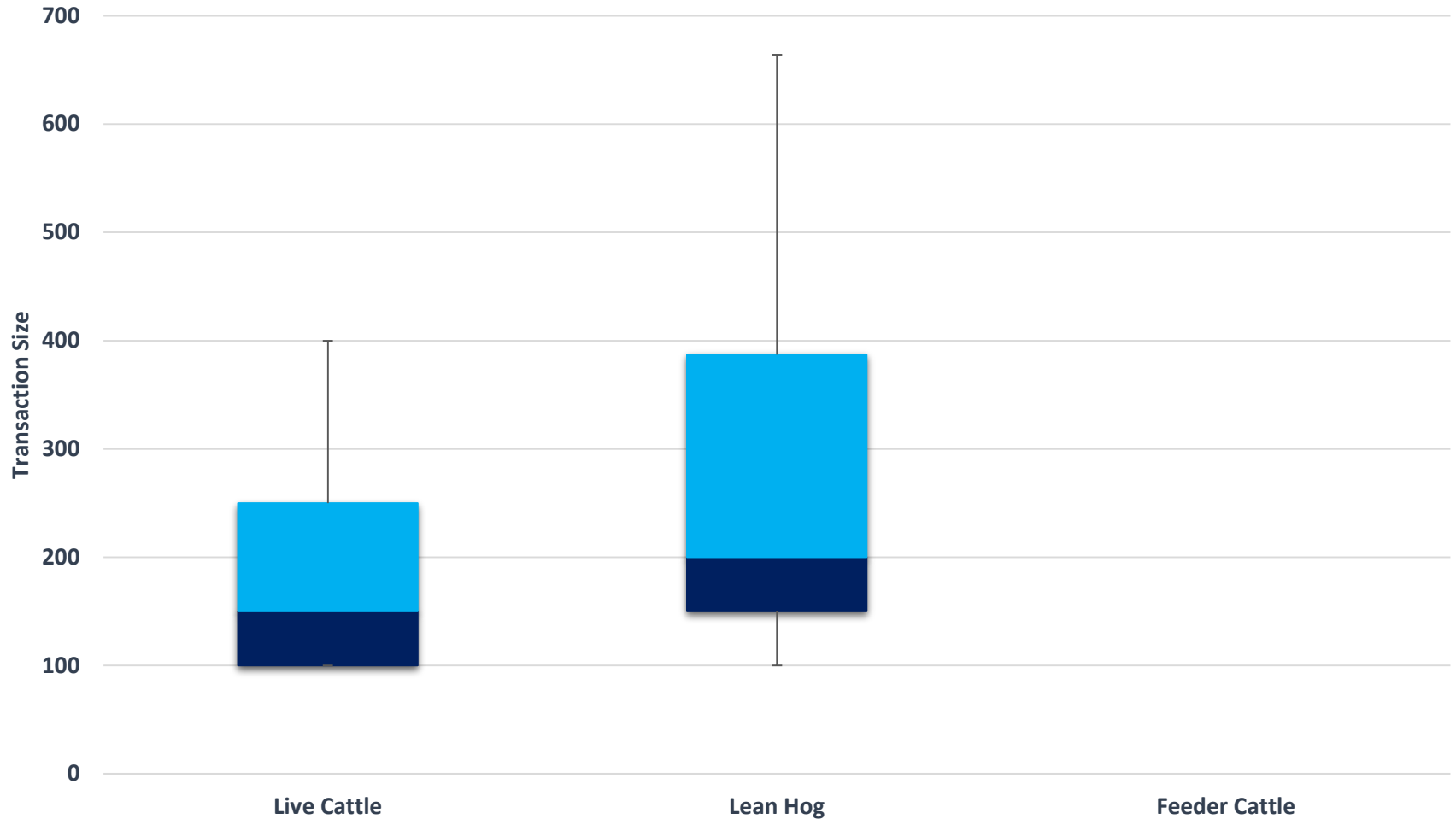
Note: In this chart the legs of a spread are summed to come up with the block size e.g. 500 CN-CZ would count as a block of 1,000



Trade Dates: 01/08/2018 – 03/23/2018

Livestock: Distribution of Order Sizes by Commodity

Note: In this chart the legs of a spread are summed to come up with the block size.



Trade Dates: 01/08/2018 – 03/23/2018

Example of Block Trades

February 28th, 2018

Block of 250 September SRW Wheat
Futures @ 522'4

At the time the block was executed the top of book depth was 43 contracts. The block was executed at the 2nd level price of the book. Had this order been put into the book as a market order, it would have needed to go through 10 levels of the book to be filled with existing liquidity shown

March 9th, 2018

Block of 250 July- Dec Corn CSO -10,0
call spread @ 1/4

Historically, Calendar Spread Options have been challenged in sourcing liquidity. Since Jan. 1, the Jul-Dec Corn CSO had traded only 419 contracts Here the broker was able to source liquidity to allow the commercial customer to execute a larger order.

March 14th, 2018

Block of 300 July Corn Future @ 399'4

At the time the block was executed the book showed 326 contracts. This block however was one leg of a ethanol crush trade where the counterparty also blocked 107 NYMEX Ethanol futures

March 27th, 2018

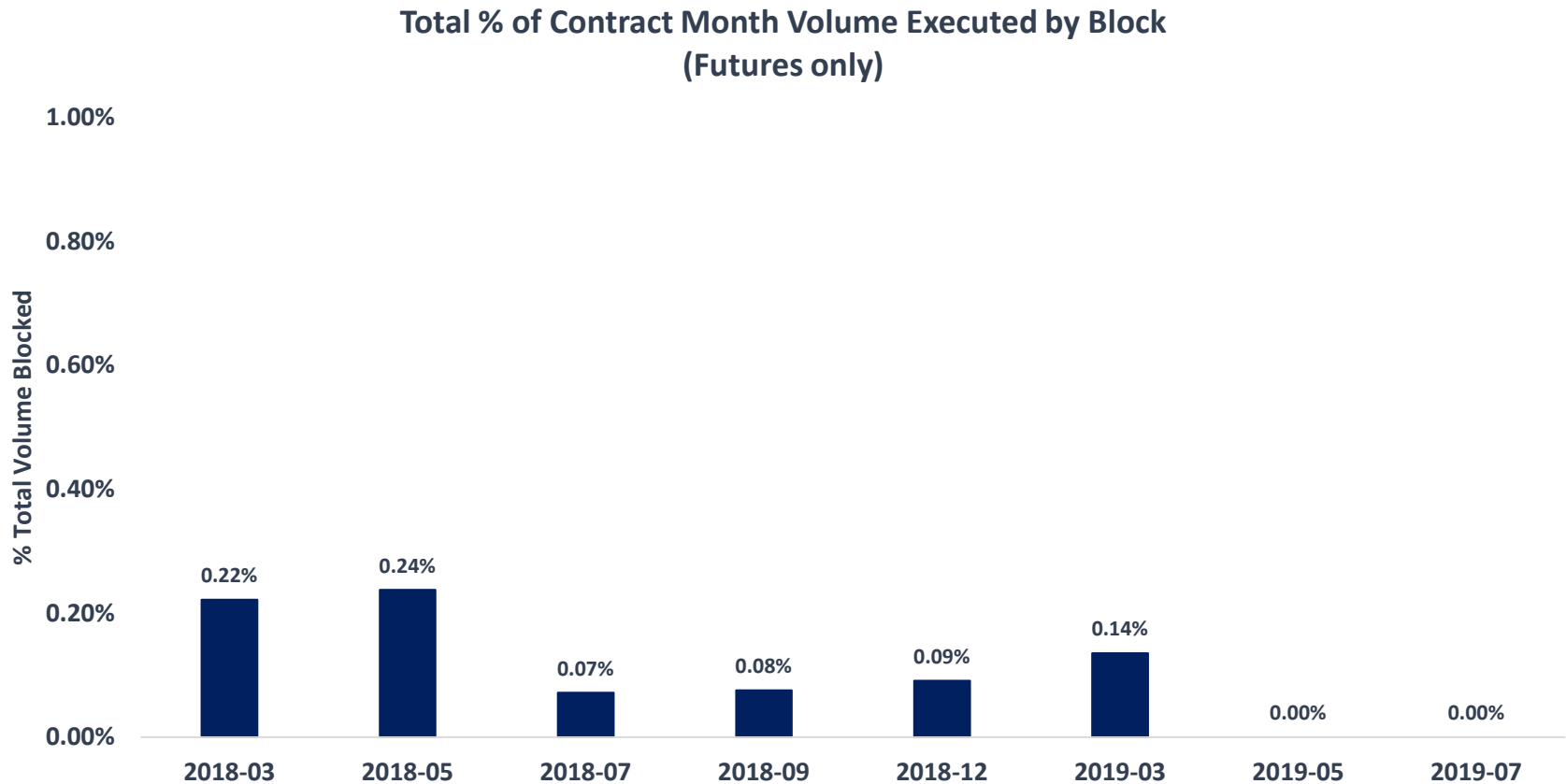
Block of 2,000 CU8 390C / CH9 410C
@ 5'3

At the time of the trade the CU8 leg was offer roughly 1,100 contracts deep but at no time during the 27th was there a bid or offer in the book for the CH9 leg

Corn

Corn – Distribution Across the Curve

Note: The legs of a spread are included in the respective contracts e.g. a CH-CK spread would contribute to both the CH and CK volumes below

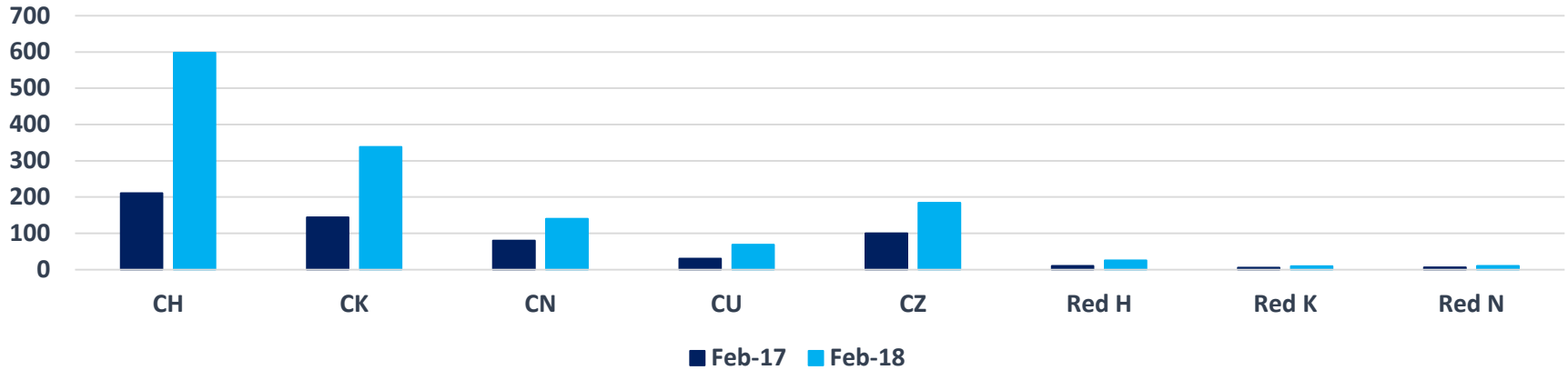


Trade Dates: 01/08/2018 – 03/23/2018

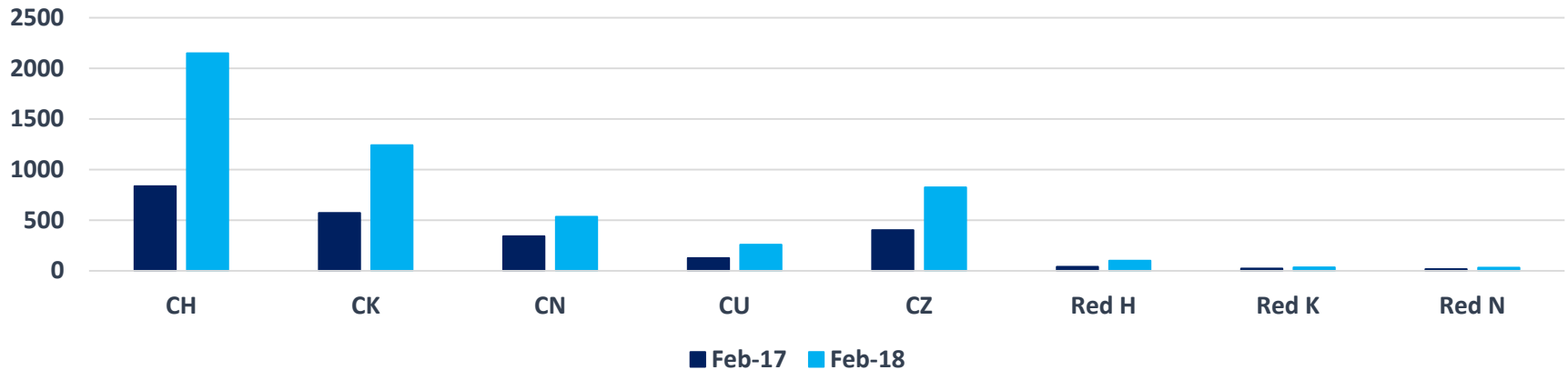
Corn – Impact on Liquidity

For a variety of reasons the liquidity of the market is greater in Feb '18 than Feb '17

Top Level Book Depth - Corn



Top 3 Levels of Book Depth - Corn



Soybeans

Soybeans – Distribution Across the Curve

Total Soybean Futures % Blocked by Contract Month

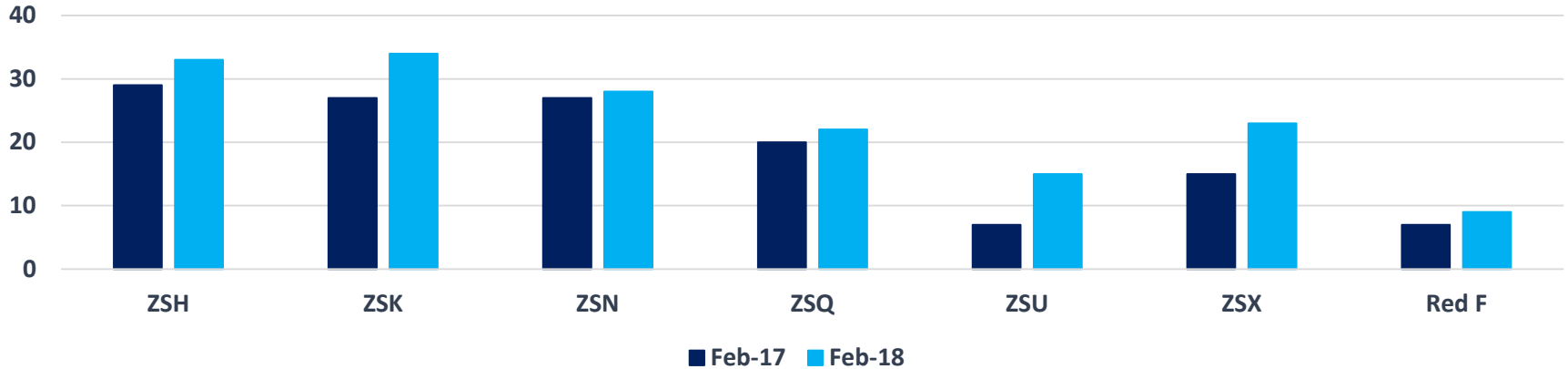


Trade Dates: 01/08/2018 – 03/23/2018

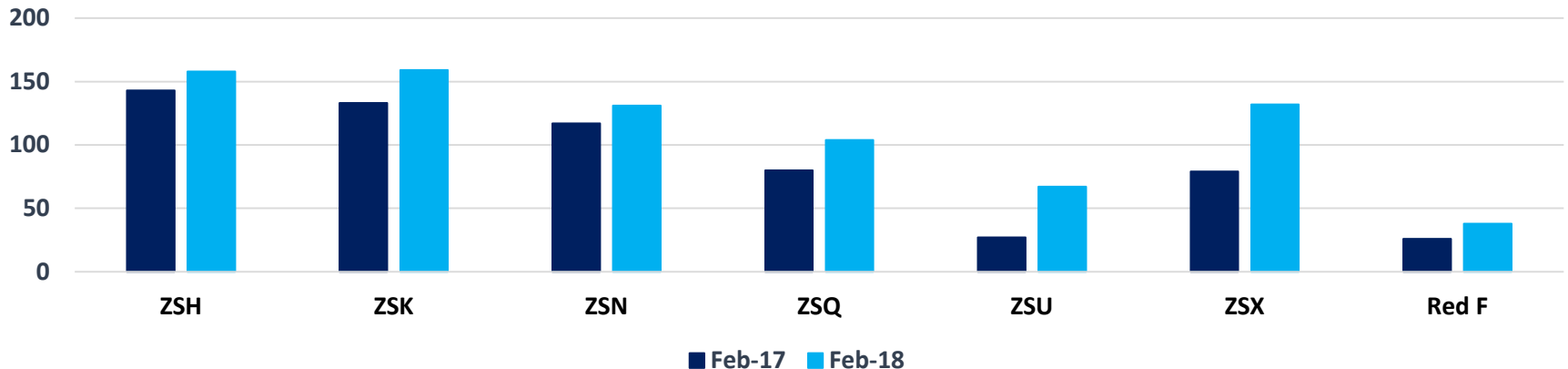
Soybean – Impact on Liquidity

For a variety of reasons the liquidity of the market is greater in Feb '18 than Feb '17

Top Level Book Depth - Soybean



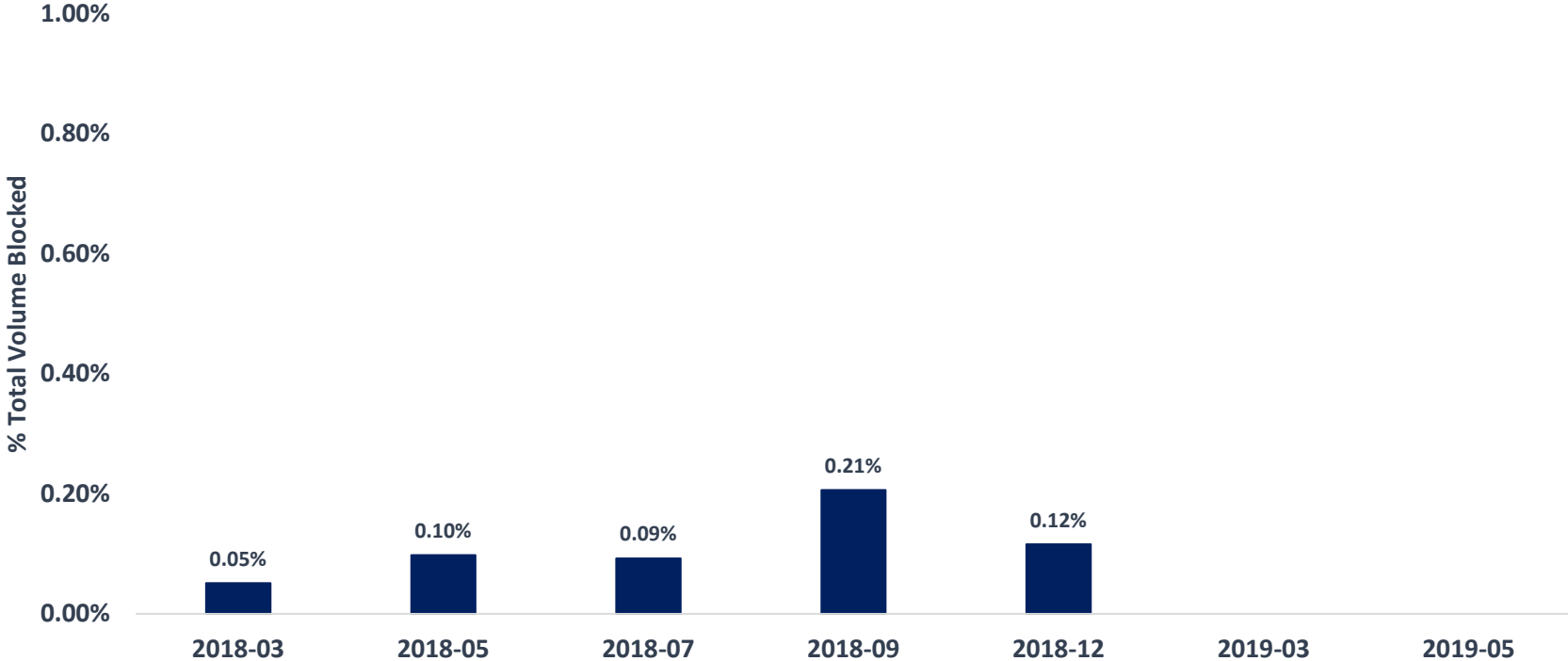
Top 3 Levels of Book Depth - Soybean



Wheat, SRW

Wheat (SRW) – Distribution Across the Curve

Total % of Contract Month Volume Executed by Block (Futures only)

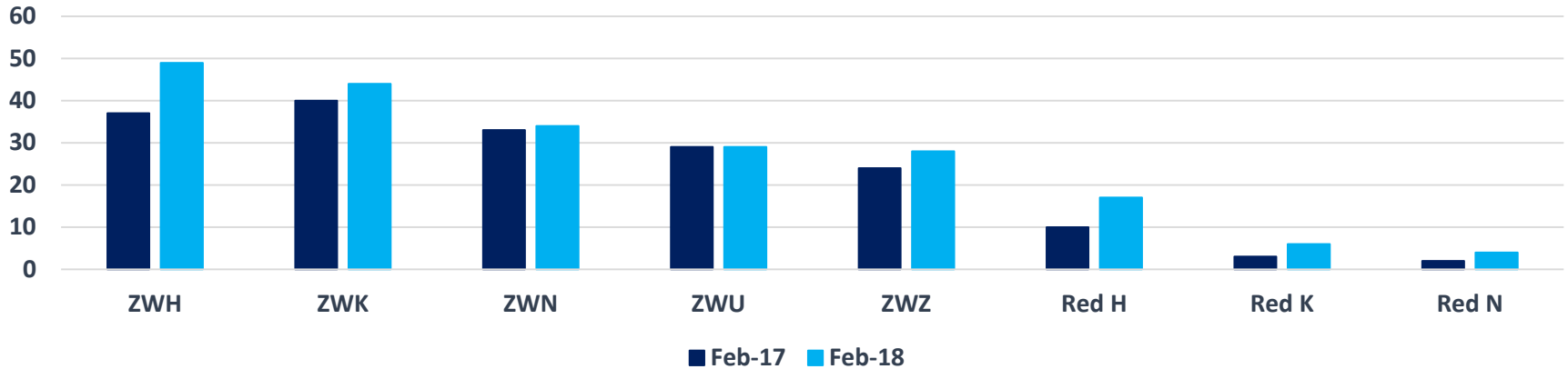


Trade Dates: 01/08/2018 – 03/23/2018

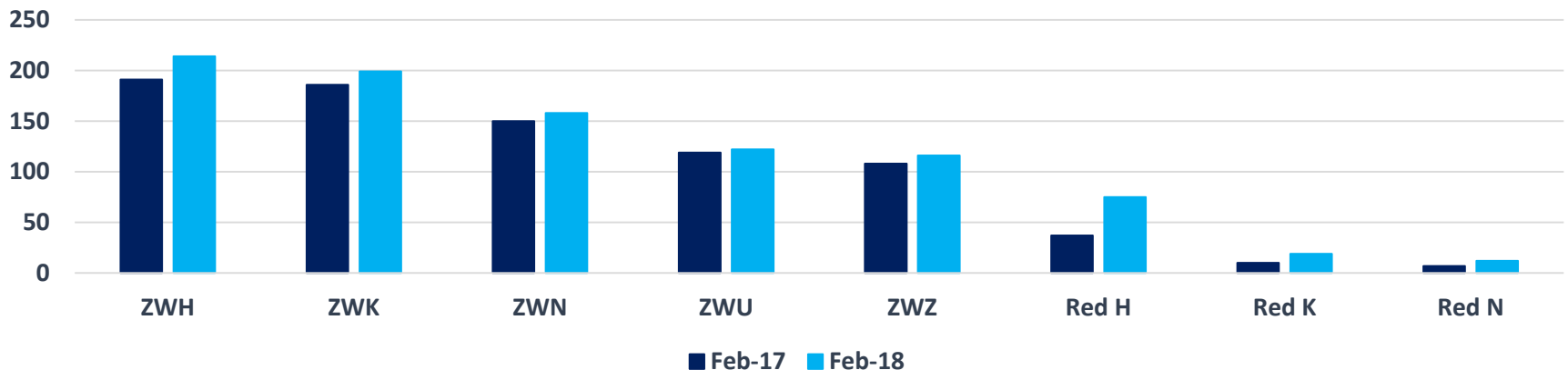
Chicago SRW Wheat – Impact on Liquidity

For a variety of reasons the liquidity of the market is greater in Feb '18 than Feb '17

Top Level Book Depth - Chicago SRW Wheat



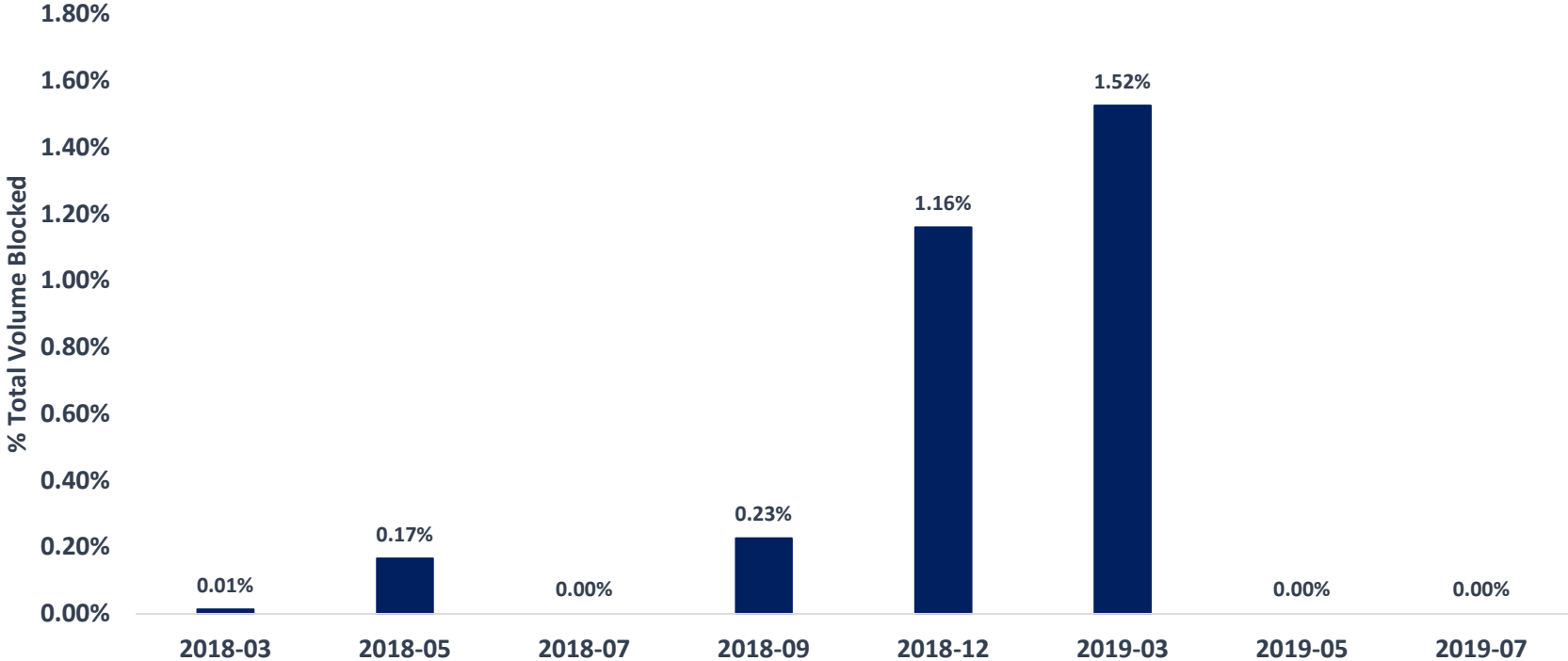
Top 3 Levels of Book Depth - Chicago SRW Wheat



Wheat, KC HRW

Wheat (KC HRW) – Distribution Across the Curve

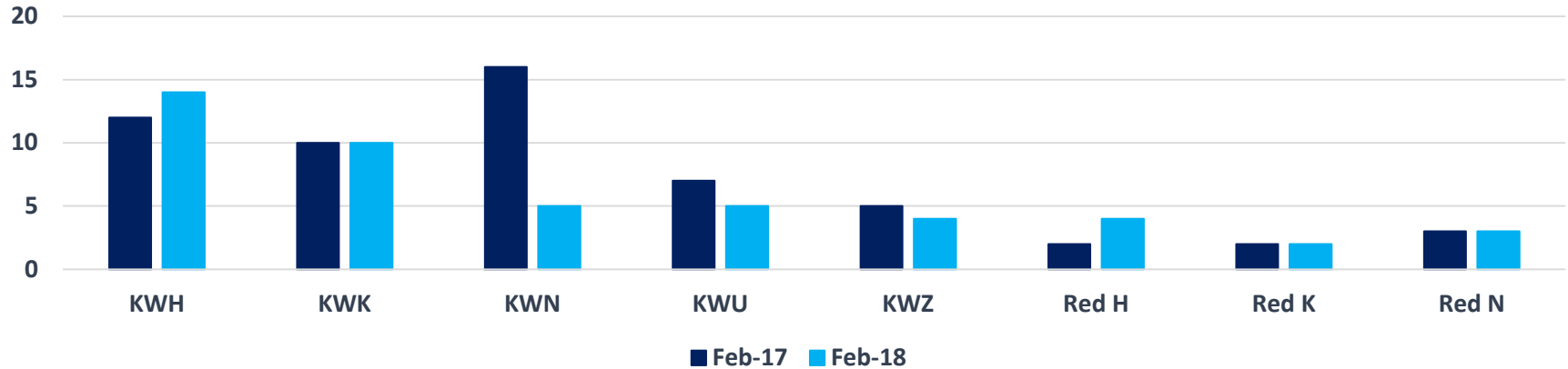
Total % of Contract Month Volume Executed by Block (Futures only)



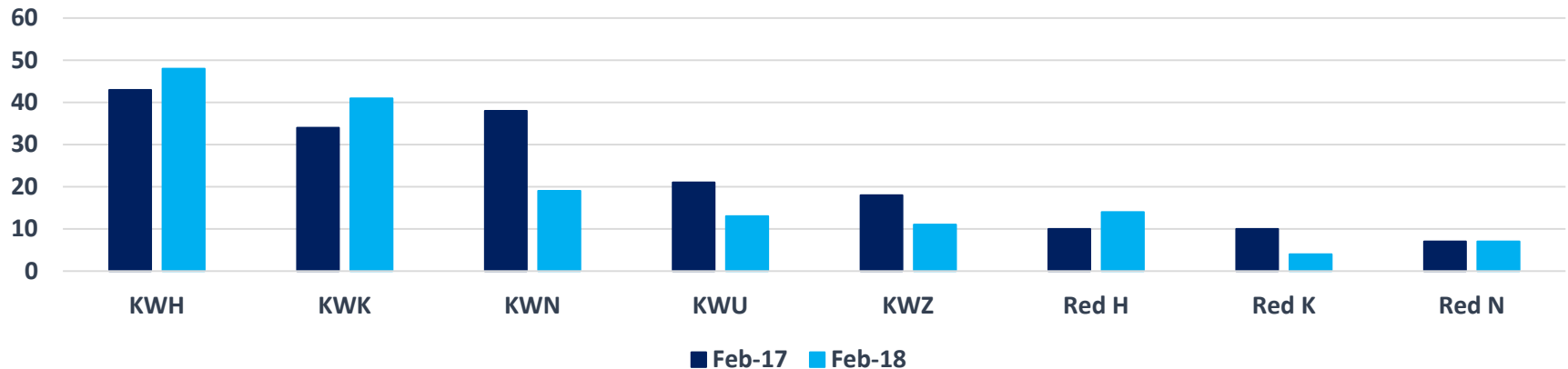
Trade Dates: 01/08/2018 – 03/23/2018

KC HRW Wheat – Impact on Liquidity

Top Level Book Depth - KC HRW Wheat

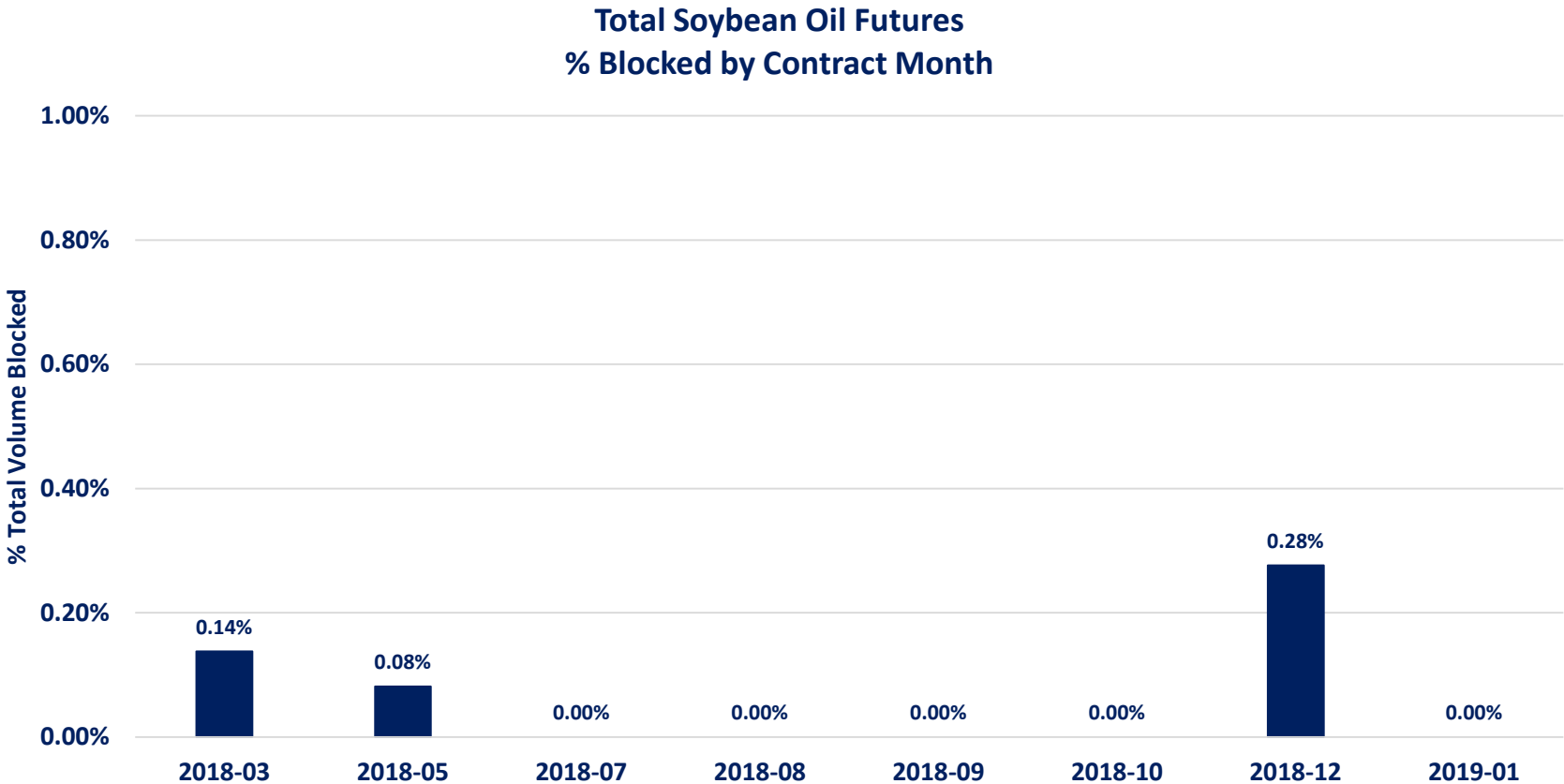


Top 3 Levels of Book Depth - KC HRW Wheat



Soybean Oil

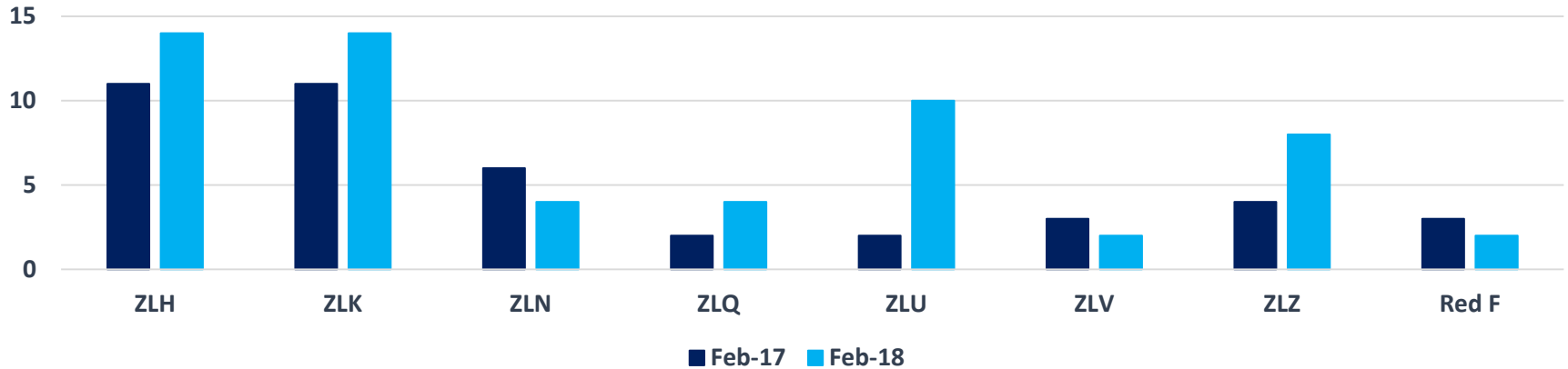
Soybean Oil – Distribution Across the Curve



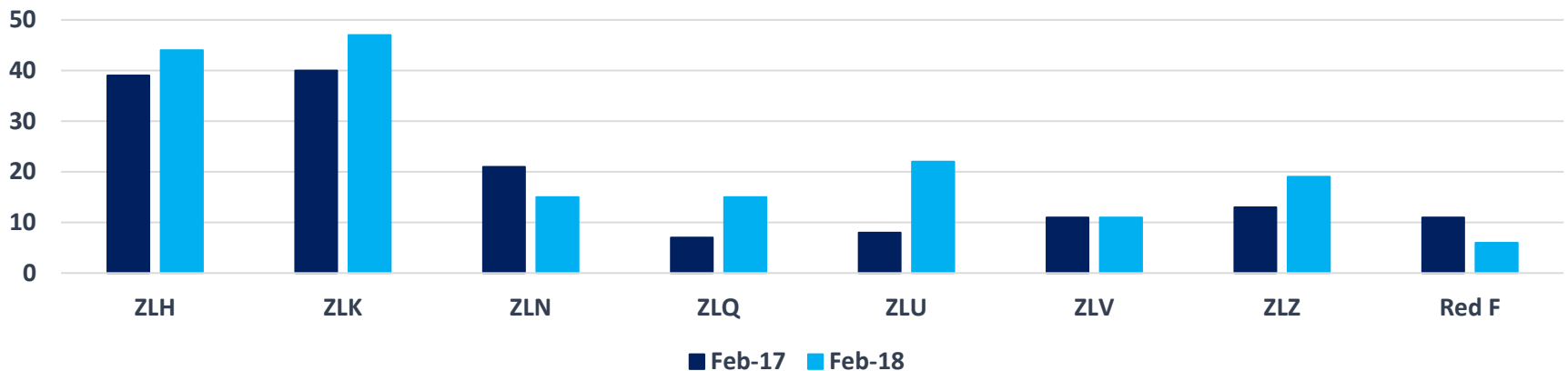
Trade Dates: 01/08/2018 – 03/23/2018

Soybean Oil – Impact on Liquidity

Top Level Book Depth - Soybean Oil

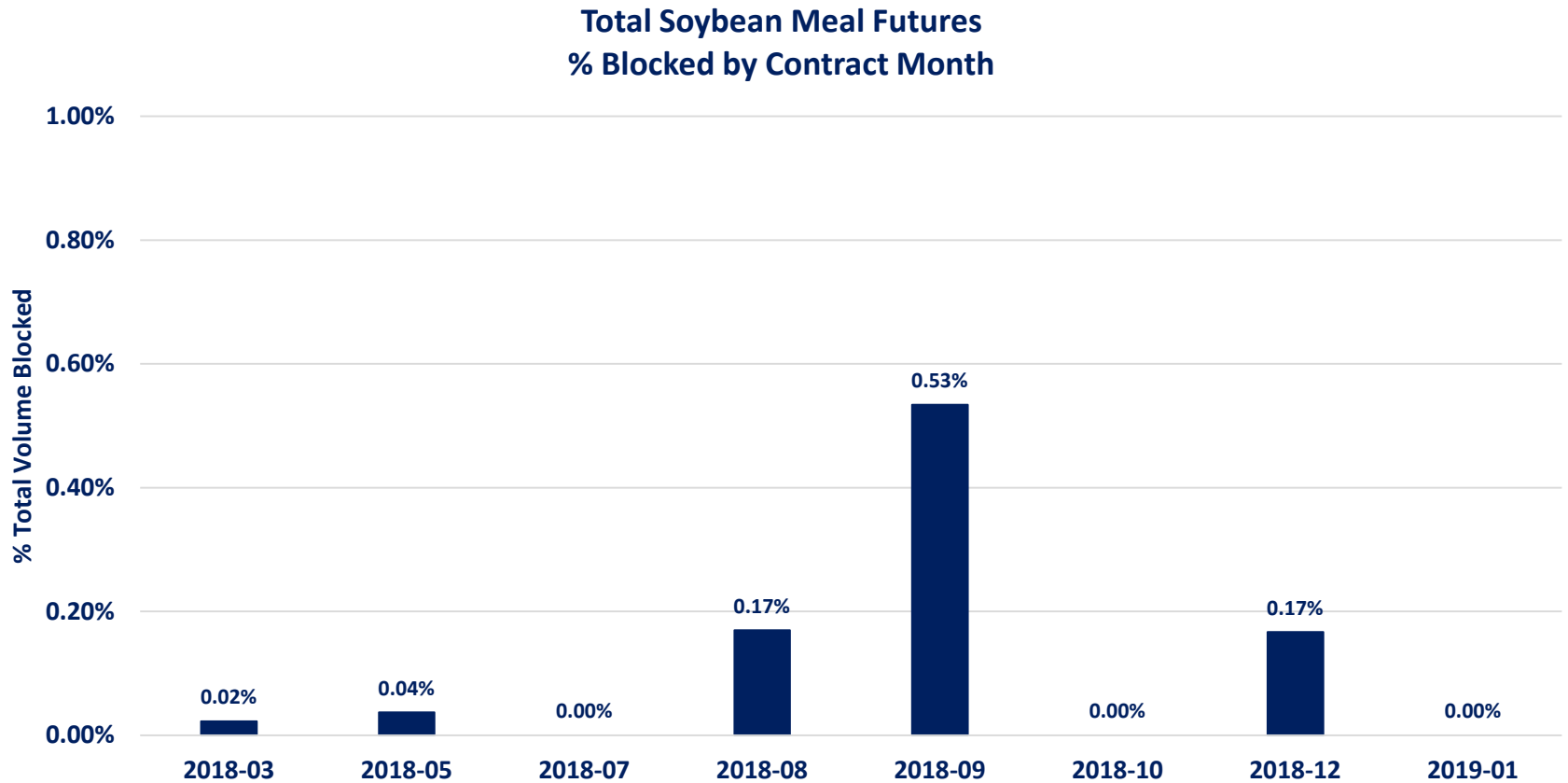


Top 3 Levels of Book Depth - Soybean Oil



Soybean Meal

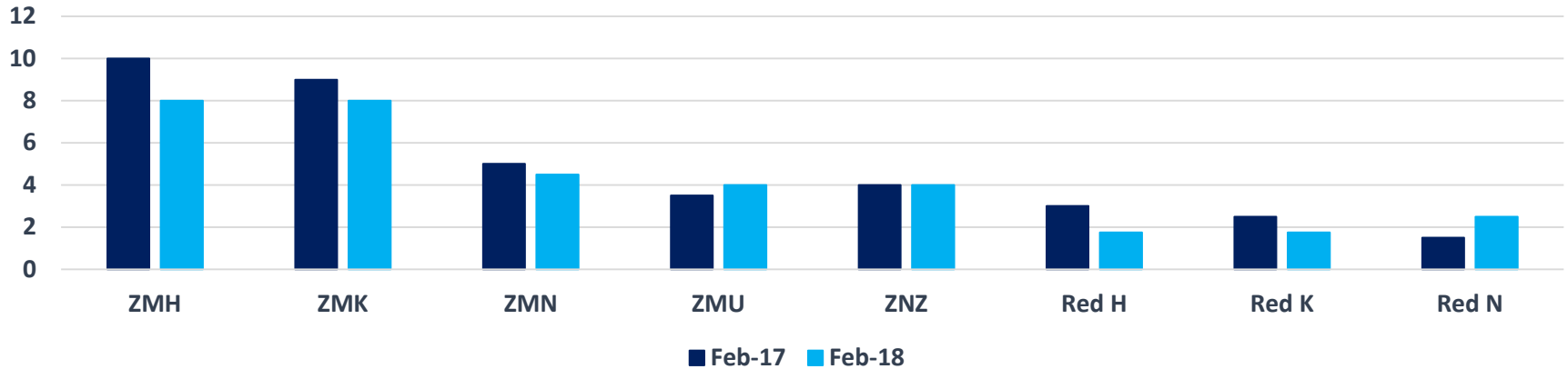
Soybean Meal – Distribution Across the Curve



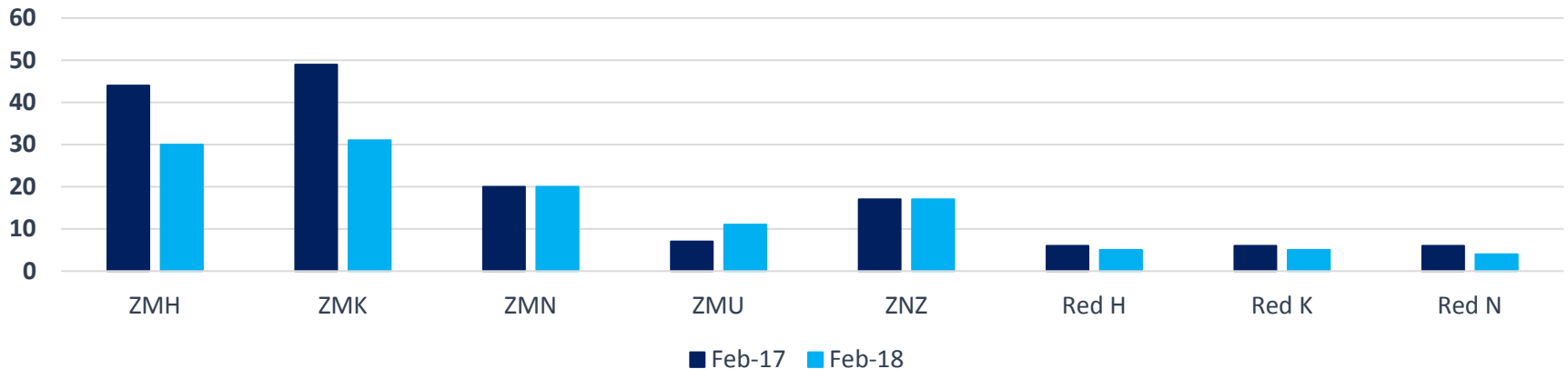
Trade Dates: 01/08/2018 – 03/23/2018

Soybean Meal – Impact on Liquidity

Top Level Book Depth - Soybean Meal



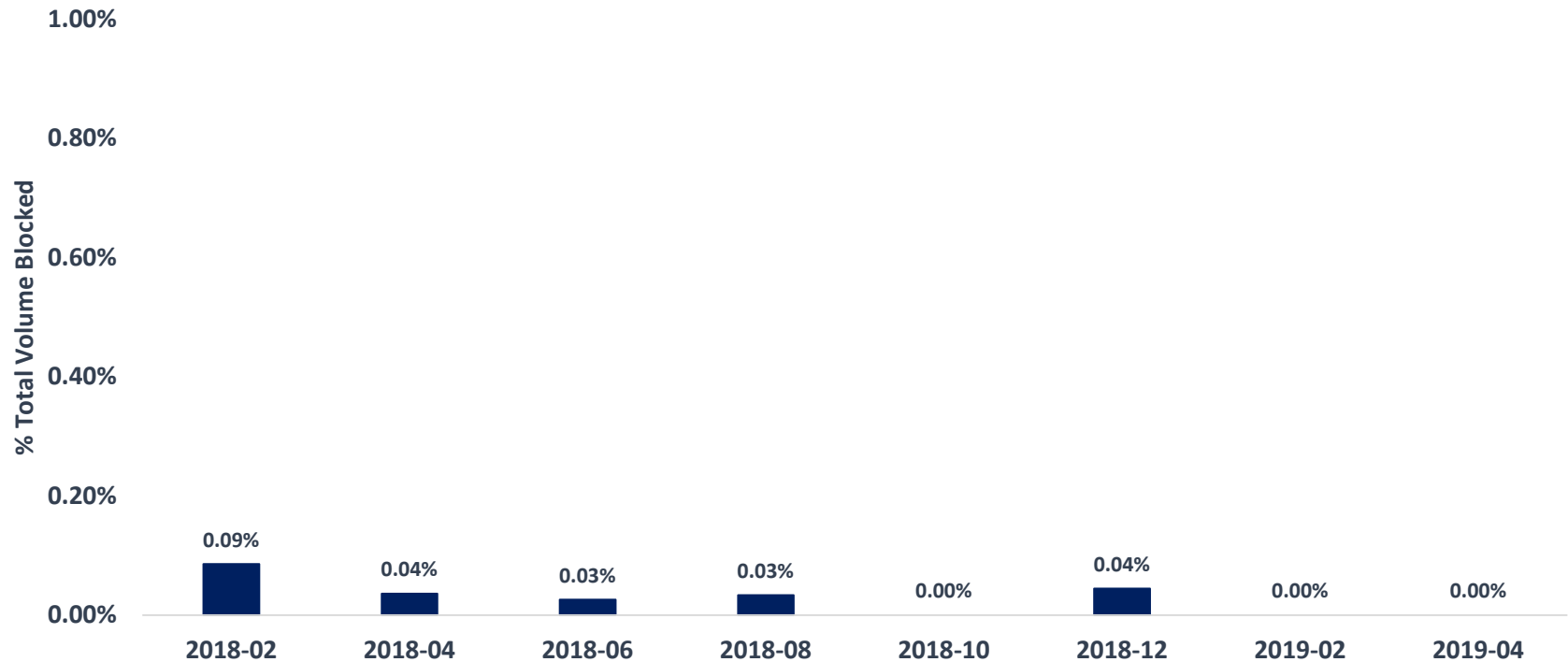
Top 3 Levels of Book Depth - Soybean Meal



Live Cattle

Live Cattle – Distribution Across the Curve

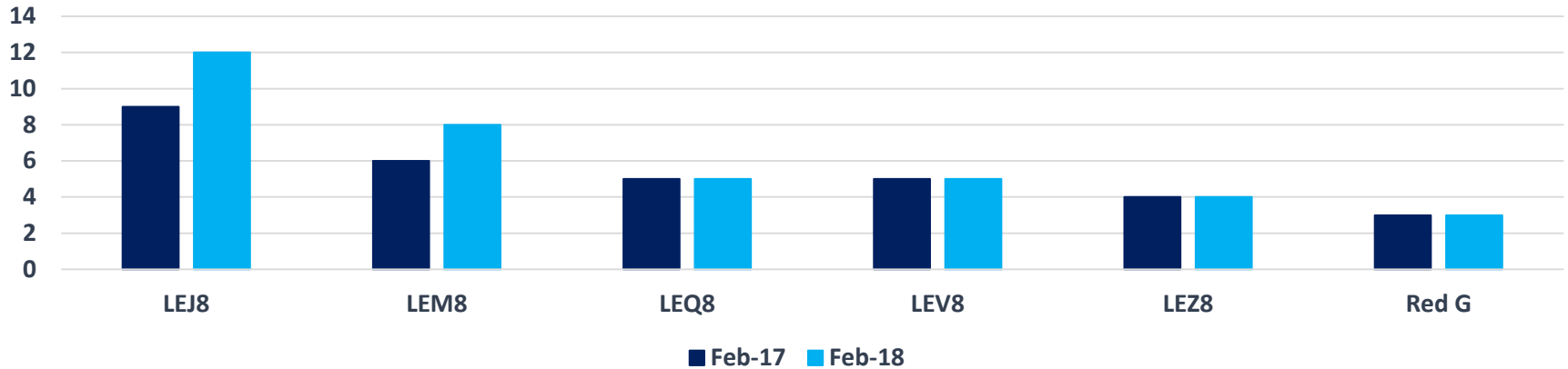
Total % of Contract Month Volume Executed by Block (Futures only)



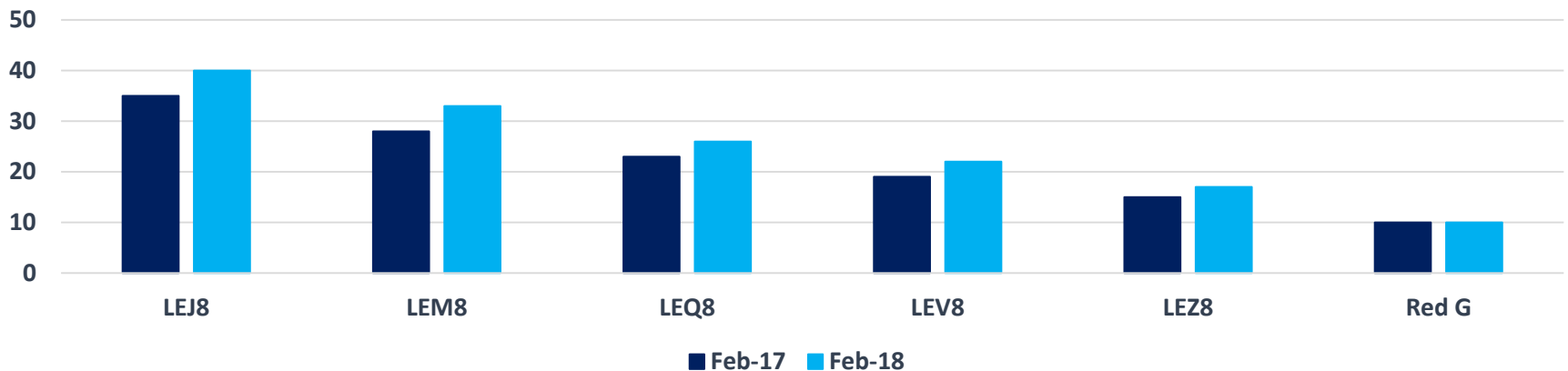
Trade Dates: 01/08/2018 – 03/23/2018

Live Cattle – Impact on Liquidity

Top Level Book Depth – Live Cattle



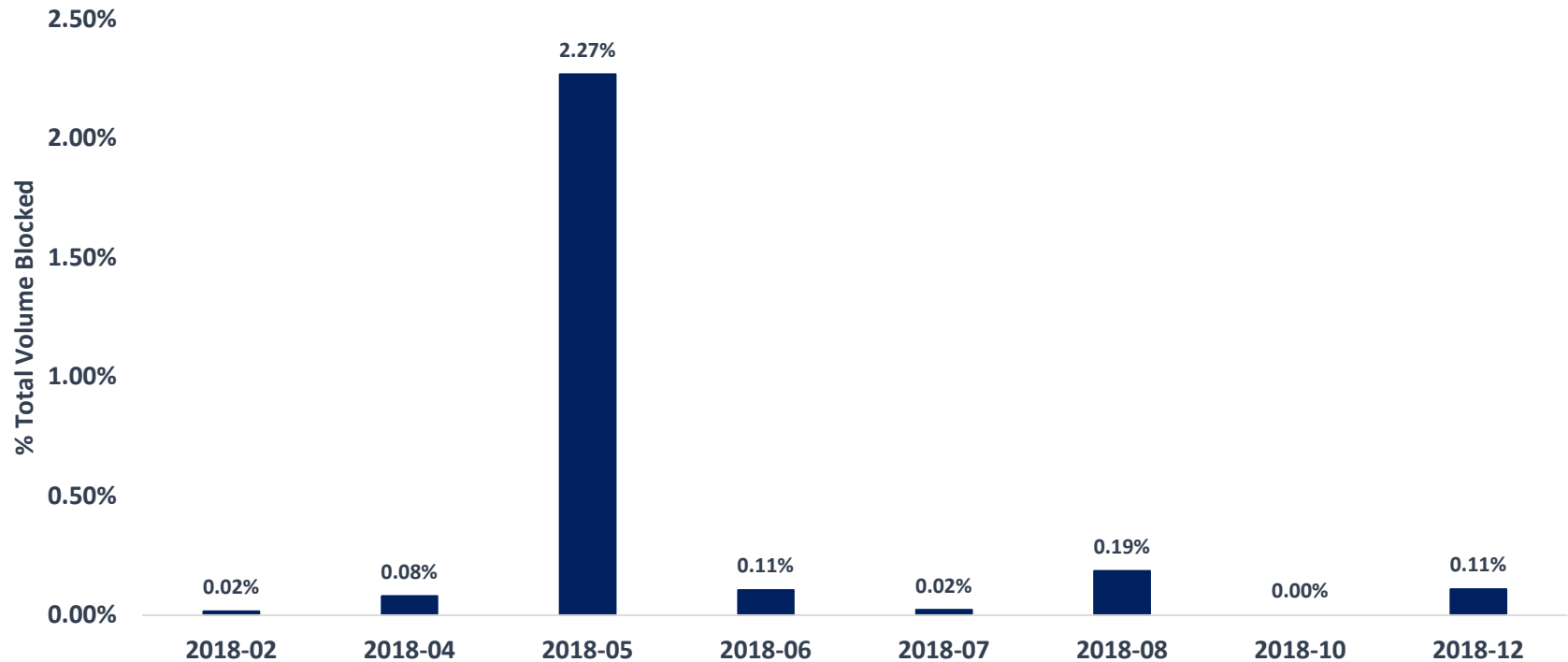
Top 3 Levels of Book Depth – Live Cattle



Lean Hogs

Lean Hog – Distribution Across the Curve

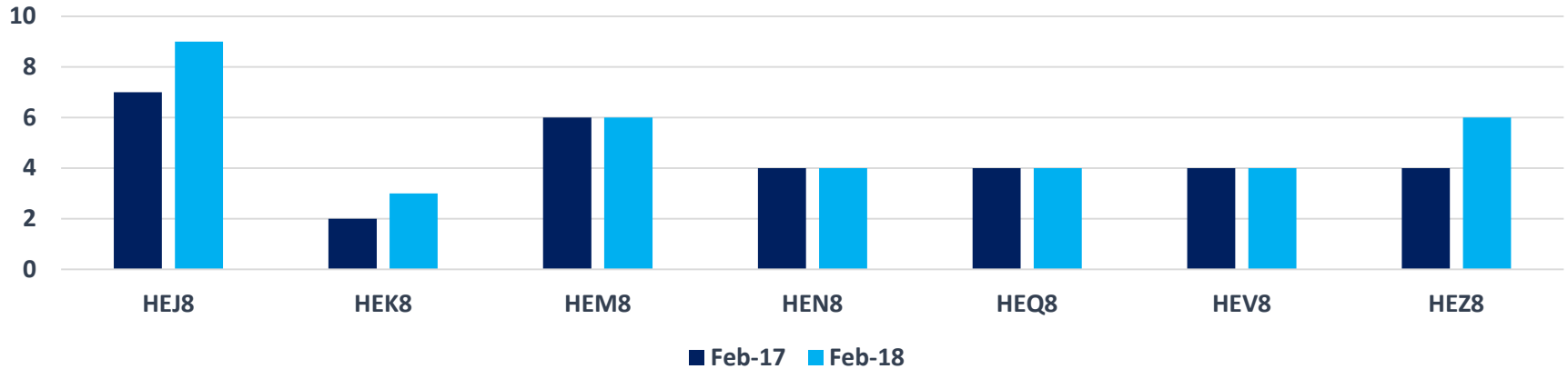
Total % of Contract Month Volume Executed by Block (Futures only)



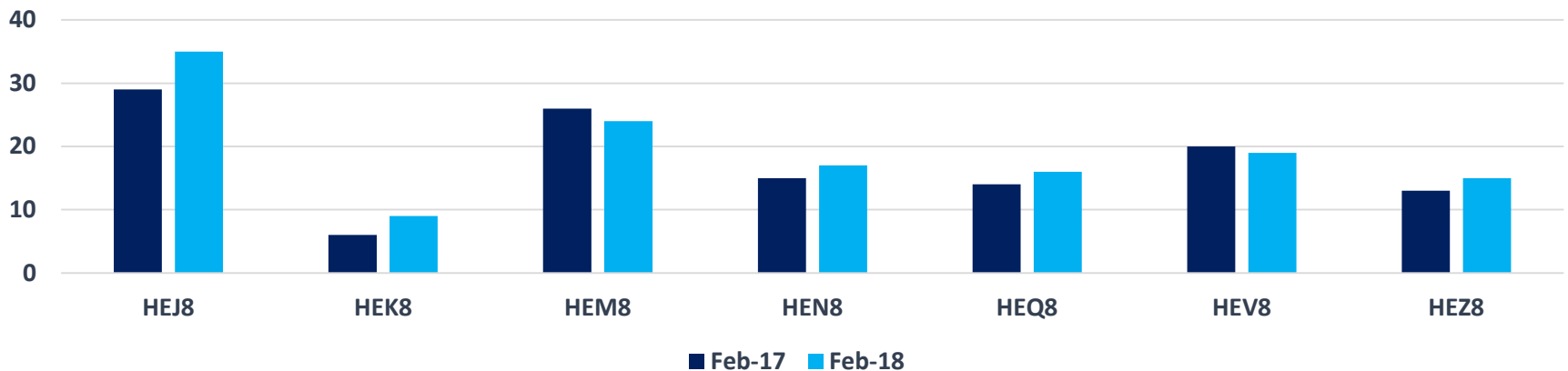
Trade Dates: 01/08/2018 – 03/23/2018

Lean Hog – Impact on Liquidity

Top Level Book Depth – Lean Hog



Top 3 Levels of Book Depth – Lean Hog



Surveillance of Block Trades in Agricultural Products

Market Regulation Department

April 2018

CME Group Market Regulation Department

Protecting market integrity, enforcing rules, and proactively mitigating risks to the marketplace

~160 Employees in 4 Locations - Chicago, New York, London, and Singapore

5 Functional Groups

Rules & Regulatory Outreach

- Draft rules, rule revisions and associated regulatory guidance (MRANs and SERs); provide rules-based guidance to participants

Technology & Strategic Initiatives

- Data scientists and regulatory systems experts work across teams to provide robust and creative surveillance tools

Market Surveillance

- Analysts monitor position limits and exemptions, accountability levels, and large trader positions to detect, deter and prevent market manipulation

Investigations/Data Investigations

- Investigators analyze and investigate market activity to identify trade practice violations and audit trail inaccuracies

Enforcement

- Attorneys prosecute rule violations referred by Investigations and Market Surveillance

CME Group Market Regulation Department

Protecting market integrity, enforcing rules, and proactively mitigating risks to the marketplace

Market Regulation Independence

- CME Group Market Regulation Oversight Committee provides independent board-level oversight of the policies and programs of the company's regulatory functions, ensuring the Market Regulation Department is able to implement its regulatory responsibilities independent of any improper interference or conflict of interest.

Market Regulation Confidentiality

- Exchange Rule 537 provides that regulatory data may not be used by the Exchange for business or marketing purposes unless the market participant has clearly consented to the use of such data in such manner.
- Proprietary data or personal information collected or received by the Exchange for the purpose of fulfilling regulatory obligations may not be disclosed publicly other than on an aggregated or anonymized basis, or in a manner that does not directly or indirectly identify any market participant who has submitted such data.

CME Group Market Regulation Department

Data & Tools for Surveillance

Enriched Order Messaging Data

Cal Date	↑Time	Clr Firm	Exc Firm Name	Account	MP1 Name	Tag 50 Name	Order ID	Instrument	Function	Side	Ord Qty	Ord Type	Price	Bk Lvl	Manual	Position	Aggr
02/13/2018	10:01:00.191584117						702633833269	ZWH8	1	S	2	L	-464	1	N		
02/13/2018	10:01:00.246392771						702633833238	ZWK8	3	B	1	L	476.25	1	N		
02/13/2018	10:01:00.285782299						702633833247	ZWN8	2	S	1	L	-493.75	15	N		
02/13/2018	10:01:00.332391143						702633833272	ZWN8	1	S	1	L	-489.75	1	Y		
02/13/2018	10:01:00.377823345						702633833273	ZWH8-ZWK8	1	S	4	L	-12.5	0	N		Y
02/13/2018	10:01:00.377823345						702633833273	ZWH8-ZWK8	105	S	4	L	-12.5	0	N		-3 Y

↑
Granular nanosecond level
order entry data

↑
Participant data

↑
Order data

↑
Enrichments

75+ additional fields →

CME Group Market Regulation Department

Data & Tools for Surveillance

Trade Data for All Cleared Transactions

 | 

Trade ID	<input type="text"/>	Submit Date	03/21/2018 09:39:19
Product	LIVE CATTLE FUTURES (48.CME)	Clearing Date	03/21/2018
Clearing	CME Group Clearing House	Original Trade Date	03/21/2018
Execution Time (Local)	03/21/2018 09:35	Execution Time (CT)	09:35
Status help	Cleared	Strategy Price	2.250
Status Reason	Trade submitted for clearing	Strategy Type	Standard Calendar
Trade Type	BLOCK	Cleared contract(s)	150 / 150
Voice Brokered:	YES	Aggressor:	BUYER

[Print](#) [Close](#)

Buyer Principal Information

Company Name Submitter Give-Up Source

Allocation Information

Company Name	Trading Account	Name	Quantity
<input type="text"/>	<input type="text"/>	<input type="text"/>	150 All

Seller Principal Information

Company Name Submitter Give-Up Source

Allocation Information

Company Name	Trading Account	Name	Quantity
<input type="text"/>	<input type="text"/>	<input type="text"/>	150 All

	Product	Quantity	Price	Term	Strike	ST	CCY	
01	Buy	LIVE CATTLE FUTURES (48.CME)	150 Contracts/month 150 cleared contract(s) Total of 6,000,000 Pounds	108.250	Jun-2018		USD	Sell 01
02	Sell	LIVE CATTLE FUTURES (48.CME)	150 Contracts/month 150 cleared contract(s) Total of 6,000,000 Pounds	106.000	Aug-2018		USD	Buy 02

CME Group Market Regulation Department

Data & Tools for Surveillance

Position Data

 ARES | Position Detail Report Help

Queries: {New Query} Run Query Configurations: {New/Default Config}

▶ Date(s): 03-29-2018 ▶ Products: 06 ▶ View: Account By EIN ▶ Calc % OI: Long ▶ EIN/MPI Aggs: Current

▶ # of Accounts: ▶ # of Firms: ▶ # of EINs: ▶ # of MPIs: ▶ Total Long: ▶ Total Short: ▶ Total FE Long: ▶ Total FE Short: ▶ Total FE Net:

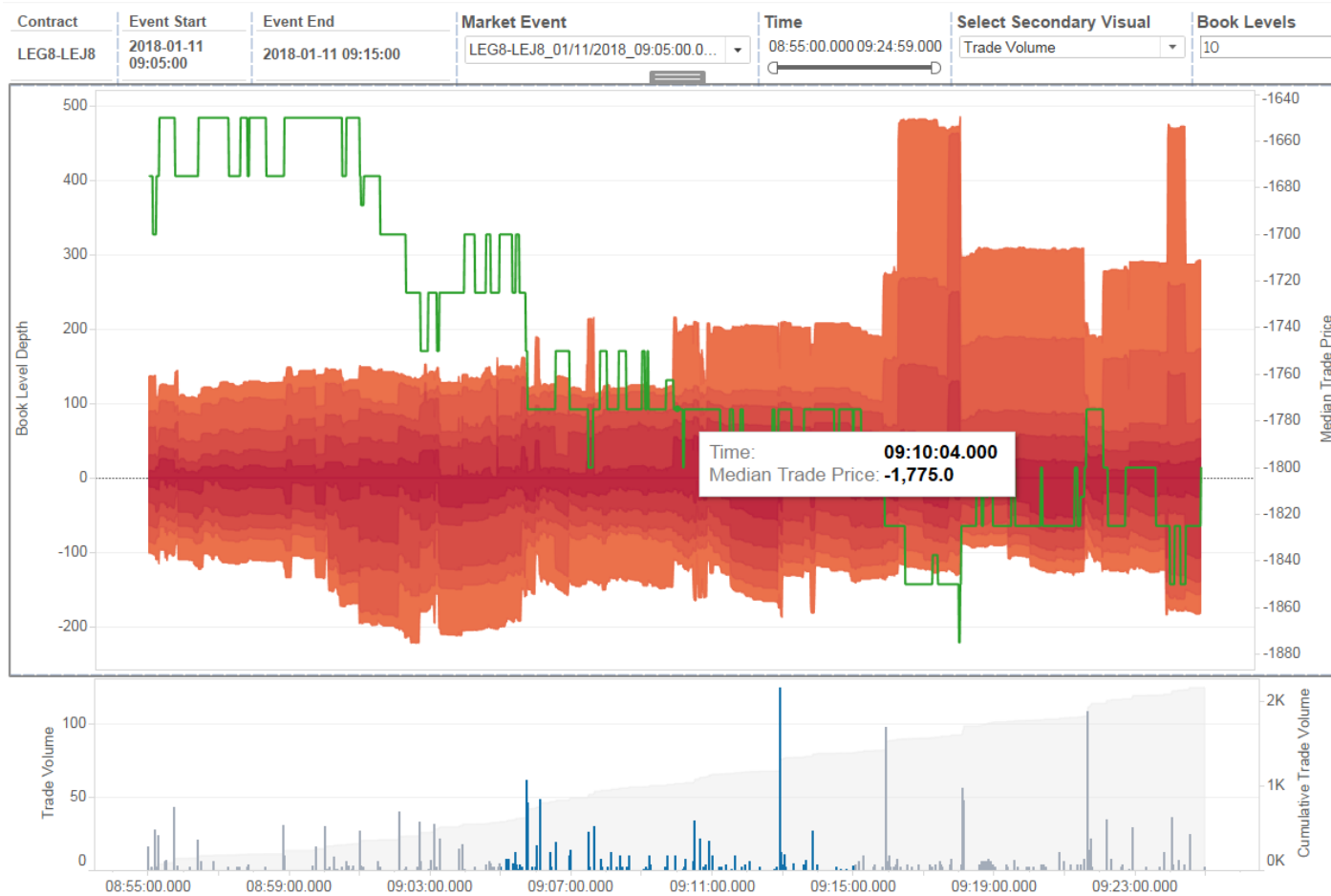
Input Parameters Results SQL

Position Date	EIN Identifier	EIN Name	MP Identifier	MPI Name	Exch	FCM Name	Contract	Long	Short
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201805	<input type="text"/>	<input type="text"/>
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201807	<input type="text"/>	<input type="text"/>
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201805	<input type="text"/>	<input type="text"/>
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201805	<input type="text"/>	<input type="text"/>
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201805	<input type="text"/>	<input type="text"/>
03/29/2018	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	CBT	<input type="text"/>	06 201807	<input type="text"/>	<input type="text"/>

CME Group Market Regulation Department

Data & Tools for Surveillance



Market Data



CME Group Market Regulation Department

Sophisticated Market Surveillance Tools

 ARES | **Block Timestamp Review** |  Help

Queries  

Parameters | Data | SQL





Report Description

This report provides the execution, submit, and match times, along with participant and contract information, for each block trade.

Version: 2

Modified: 11/18/2016, 3:46 PM

Data Source: ORACLE

* Start Date:	<input type="text" value="03/29/2018"/>		
* End Date:	<input type="text" value="03/29/2018"/>		
* Exchange:	<input type="text" value="ALL"/>		
* Commodity:	<input type="text" value="ALL"/>		
* MP ID:	<input type="text" value="ALL"/>		
* Firm No:	<input type="text" value="ALL"/>		
* Account No:	<input type="text" value="ALL"/>		
* Card/Order No:	<input type="text" value="ALL"/>		

CME Group Market Regulation Department

Supplemental Information

✕ Firm Regulatory Portal ↗

home

Regulatory Matters - Status Inquiry

Please enter the reference number and PIN for the regulatory matter that you would like to look up.

Reference #:

PIN:

Lookup Status

Clear

Status:

Self-Report Delays/Changes for PNTs Portal

* Clearing Ref #/Trade ID:



* Explanation:

Additional Email(s) for submission confirmation

(separate addresses with semicolons)

-
-
- Awaiting client details
- Change of clearer/exchange
- Complex trade
- Executed during maintenance window
- Internal communication issues/delays/errors
- Internal system issues/delays
- Permissioning/Enabling issues
- Trade rejected (limits reached)
- Void and reentry
- Other

Additional Details:

Limit 1000 characters

Screen Links

CME Group Market Regulation Department

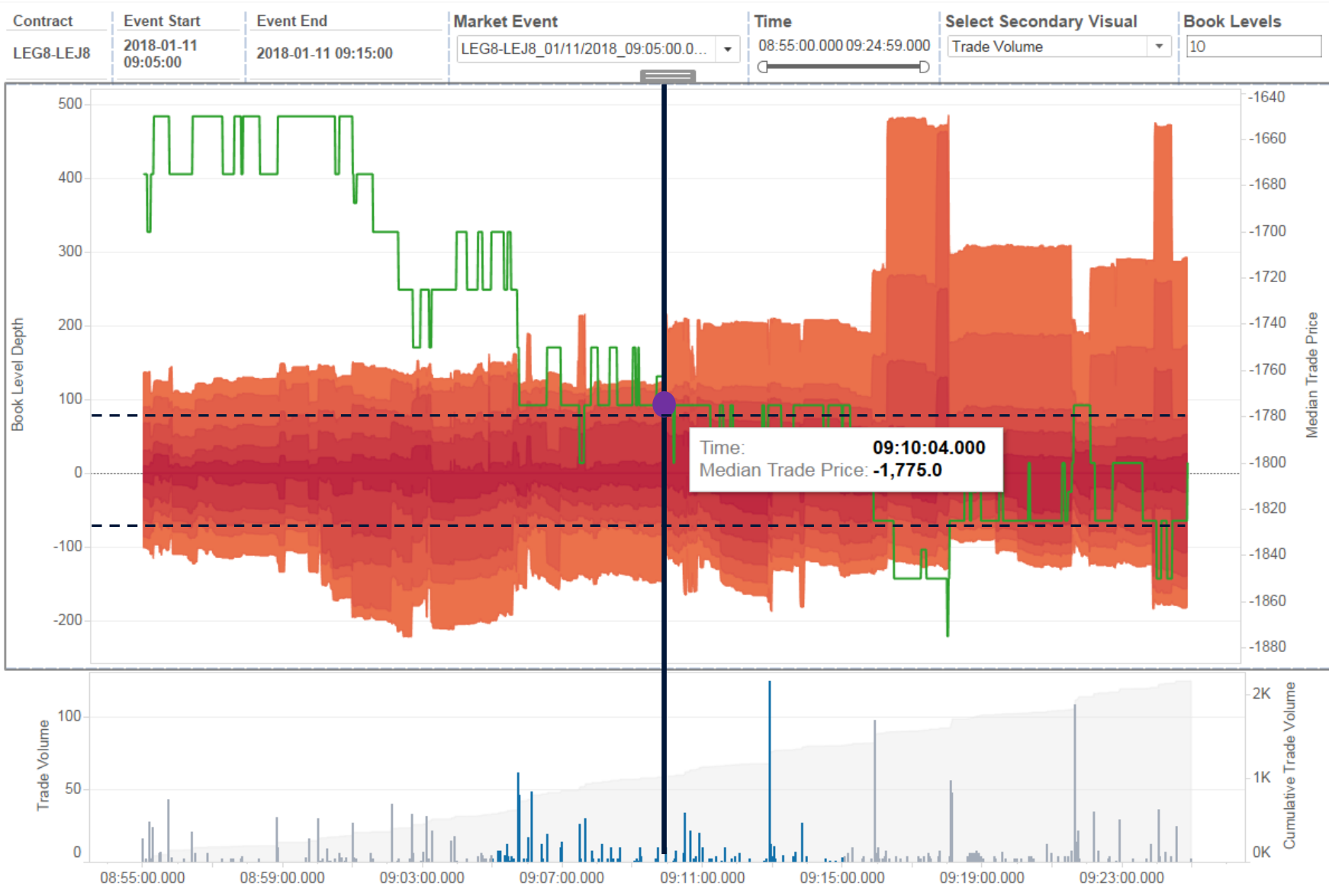
Programmatic Reviews of Block Trading

Designated Market Regulation Department team assigned to analyze and review block trades for potential violations. The team performs:

- **Pricing analysis** to determine if block price was fair and reasonable at the time of execution. This includes a cost-to-fill analysis, a review of the high/low price range on Globex, and a review of other comparable block trade prices.
- **Timing analysis** to validate whether the block was reported within the appropriate reporting time window. Market Regulation will also incorporate information obtained from firms' self-reports into this analysis.
- **Pre-hedging analysis** to ascertain whether a prohibited party engaged in pre-hedging activity.
- **Money pass and wash trade analysis** is performed to determine if the block trades violated a trade practice rule.
- Reviews of complaints from market participants.

CME Group Market Regulation Department

Programmatic Reviews of Block Trading



CME Group Market Regulation Department

Block Trading Violations

- **Summary fines for reporting infractions pursuant to exchange Rule 512**
- **Disciplinary sanctions for egregious reporting violations or other significant trade practice violations**

NOTICE OF DISCIPLINARY ACTION

NYMEX 16-0541-BC

Effective Date 02 March 2018

FINDINGS:

Pursuant to an offer of settlement that [REDACTED] presented at a hearing on February 28, 2018, in which [REDACTED] neither admitted nor denied the factual allegations or rule violations upon which the penalty is based, a Panel of the NYMEX Business Conduct Committee ("Panel") found that from May 1, 2016 through May 1, 2017, [REDACTED] was the executing broker for various block trades in Gasoil, Naptha, Fuel Oil and Argus Propane Far East Index contracts and frequently misreported the true and accurate execution times of the block trades to the Exchange. [REDACTED] failed to diligently supervise its employees or agents in its reporting of block trades to the Exchange by failing to have established procedures to review block trades before and after submission to the Exchange to ensure that [REDACTED] block trade execution times were accurate.

The Panel concluded that Ginga violated Exchange Rules 526.F. ("Block Trades") and 432.W ("General Offenses—Supervision").

PENALTY:

In accordance with the settlement offer, the Panel ordered [REDACTED] to pay a fine to the Exchange in the amount of \$60,000.

Questions?

Disclaimer

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