

The Rise of Currency Futures on Forts

CURRENCY FUTURES CONTRACTS BREAK RECORDS AT THE RUSSIAN FUTURES AND OPTIONS MARKET, WRITES **KIRSTEN HYDE**.



EVGENY SERDYUKOV

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Since Forts, the futures and options market of Moscow’s Russian Trading System (RTS) stock exchange, launched futures on EUR/USD and EUR/RUB exchange rates in February, it has witnessed a meteoric rise in interest from participants.

So much so that Fort’s established USD/RUB and the new EUR/USD future contracts are now numbers two and three, respectively, in the list of most traded contracts on the RTS. Between them they traded almost RUB130 billion in February. On February 17, trading volume in the EUR/USD contract reached a record 142,565 contracts, or over \$1.8 billion in money terms.

Officials say solid interest in the new FX contracts is a sign of a well-timed launch in response to market needs: In volatile global currency markets, investors are turning to new defence mechanisms while stalling equity markets make speculators explore new instruments.

In August 2008, as the world financial crisis began to unfold, the dollar/rouble exchange rate became highly volatile. That was when Forts’ market participants began “very actively” trading in USD/RUB futures, says Evgeny Serdyukov, head of futures and options at RTS. Market participants, with business in the eurozone, also began expressing their wish to trade in futures on EUR/RUB to hedge currency risks.

“The success of the contracts is rooted in the extreme volatility of currencies. Forts market participants realise that the high volatility is a time to hedge risks but also to derive benefits such as speculative gains,” Serdyukov tells *Profit & Loss*.

He adds that he sees no signs of volatility abating. “Market participants are continuing to show huge interest in hedging their risks against volatility, which is why we believe the contracts will remain very attractive.”

The rise in trading volumes has also come as the Russian rouble hit fresh lows versus a euro-dollar basket used as an official measure of the currency. Since Russia embarked on a gradual currency devaluation policy in November, the rouble has lost around a quarter of its value against the bi-currency basket.

TRANSACTIONS

In February, around 1500 participants were conducting FX futures transactions via 50 Forts clearing members, Serdyukov says. Around 80% of the transactions were made by individual investors with the remainder carried out by banks and investment companies.

The new futures contracts are for 1,000 euros quoted based on the currency rates established by the European Central Bank. The basic size of the initial margin on the instruments is set at 4% of the contract price with the contracts trading the March quarterly cycle.

Forts uses RTS’s technology and risk management system, which guarantees the fulfilment of obligations towards each market participant on the trades made in the trading system. Trades are cleared by the RTS Clearing Centre.

Serdyukov says there are plans to introduce options on the new currency pairs this year and, at a later date, futures contracts on other currency pairs. “We are in the research stage now so we are looking at the demand of the market and we will give specific information when we’re ready to launch the products,” he says.

Meanwhile, records continue to be made on RTS’s three currency pairs. As *Profit & Loss* was going to press, RTS said that open interest in the EUR/USD futures contract hit a high of 163,760 contracts on March 18, or \$215 million in money terms.

But it’s not just Forts that has enjoyed success in currency futures contracts. Its rival, the well established Moscow Interbank Currency Exchange, or Micex, has also seen a rise in the number of deals made in USD/RUB. On January 15, trades in USD/RUB futures topped 9,000 deals, a third more than the last record.

Serdyukov says trading volumes in currency futures on Forts are now equal to the volumes on Micex. “This achievement is largely down to a well-timed launch when investment companies and individual investors are becoming more active in the currency market,” he says.