

Zaner Group

Financial Services Since 1980

August 2011

NEW OPPORTUNITIES

Trading the E-Micro Currency Futures Contracts

Currency traders now have the ability to trade in a regulated and Exchange-listed Forex-Futures market via Forex E-micro futures. Traded exclusively on the CME Globex electronic trading platform, Forex Futures E-micros offer the security of centralized clearing and guaranteed counterparty credit at a manageable contract size.

These forex futures should appeal to retail fx traders, looking to trade a look-alike futures contract, and to retail futures traders, looking for currency contracts with a smaller risk/reward exposure.

Our Special Report illustrates several innovative ways that, in our opinion, micro contracts can be incorporated into many trading strategies and trading plans.

Because E-micro currencies are futures contracts, they employ leverage and it is possible to experience losses greater than the margin requirements. The effect of leverage is that even a relatively small price movement may result in immediate and substantial losses greater than the margin requirement including any fees and commissions.

NEW OPPORTUNITIES is the companion piece to our Forex Futures E-micro Fact Sheet, which includes contract specifications, price quotation protocol and CME fees.

Principle Features and Benefits

- 1/10th the contract size of the regular CME currency futures contracts; hence 1/10th the margin requirement.
- Physical Delivery Settled. This enables active traders to carry larger positions in micros and easily offset them with a standard size FX futures contract. [1]
- Settled nightly to the same settlement price as the regular-sized CME currency futures.
- Interbank fx pricing and quotation protocol.
- Transparency and Anonymity:
 - Everyone who trades at CME Group – from the largest financial institutions to active individual traders – has complete and equal access to the book of prices and trading opportunities.

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

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INNOVATIVE WAYS OF TRADING E-MICRO FX CONTRACTS

Building A Position

Both fundamental and technical traders look for an ever-changing list of news or price points which might validate a market position. The E-micro contracts allow a trader to initiate a position with a manageable risk/reward ratio and then continue to build the position as events unfold. Traders are nonetheless cautioned that despite low margin requirements, the leveraged nature of futures trading can cause losses in excess of the initial margin deposit.

For purely illustrative purposes, imagine a technical trader with a trading plan that calls for adding to a long position whenever the Euro closes 15 points higher than the opening price. With the micro-Euro having a contract size of just 12,500 euros and a margin requirement of approximately \$405, a trader can begin with a 1-contract micro position and continue to increase the size of the overall position as the trading plan dictates. Since the micros are 1/10th the size of a full CME currency futures contract, the trader can in effect, build a position in increments of 10% of a full-sized contract.

Reducing Exposure to a Position

Imagine a trader short one regular-sized Swiss franc futures. The open position trade choice is very clear: Keep the entire position or liquidate the entire position. This is true whether the trader is looking to close out a currently profitable or unprofitable position. Every tick against the position increases the loss (or decreases the open-trade profit) by \$12.50.

But what if the trader sought to reduce exposure and still maintain the short position? With micros, the trader can now reduce exposure in increments of 10% of the regular-sized contract. And since CME clearinghouse recognizes a spread margin rate between the regular and micro currency contracts, the margin requirement would be reduced with every micro contract position which offsets against a regular size contract position.

NOTE: commissions and fees will affect the ultimate profit/loss of a closed out position.

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Test a New System or Indicator in Real-Time

We believe that this may be one of the best uses for these new contracts. We expect the pricing relationship between the micros and regular-sized contracts to be very tight. This is based on a reliance on the system of market-makers CME Group utilizes and the large arbitrage network linking spot forex and futures markets. Furthermore, CME settles the micro closing prices equal to the settlements of the regular sized currency futures (or their reciprocal, for the CHF, JPY and CAD).

Paper (mock) trading has its place but it is never a substitute for establishing and liquidating in the real marketplace when it comes to establishing a track record or testing the efficiency of a trading system. Since the micros are likely to track the regular sized contracts closely (and settle identically), they provide a “live trading environment” in which to test new systems and indicators. The objective of testing a new system is to see how well it performs under various scenarios, such as percentage of winning vs losing trades, largest drawdowns, etc. Micro fx contracts can efficiently provide this kind of test data with real-world profits and losses in a live trading account, but at 1/10th the risk/reward, and 1/10th the margin requirements, of a regular sized contract.

TRADING BASICS

The micro Euro, Australian dollar (AUD) and British pound are quoted and priced in direct terms, just like the regular-sized CME currency futures contract. But there are two e-micro futures contracts for the Canadian dollar (CAD), Japanese yen (JPY) and Swiss franc (CHF). One set of CAD, CHF and JPY contracts are quoted and traded as they are in the Interbank market; the other set are quoted and priced in direct terms just like their regular-sized futures contract counterparts.

Since Currency transactions in the interbank market involve trading one currency for another, they are always traded in pairs. The first currency in a pair is referred to as the **base currency** and the second currency in the pair is referred to as the **quote currency**. If the E-micro futures EUR/USD pair is trading at 1.3589, then \$1.3589 will purchase 1 euro. If the E-micro USD/CAD pair is trading at 1.2267, then CAD1.2267 will purchase \$1.00.

The “key” to remember is that you are always buying or selling the first currency listed in a currency-pair (the base currency). It is also important to enter liquidating orders using the same contract used for the initiating position. If you are long the USD/CHF e-micro futures contract, enter a liquidating sell order for the USD/CHF. But if you were short the CHF/USD futures contract you would enter a liquidating order to buy the CHF/USD contract.

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TRADING FUTURES AND FOREX WITH THE ZANER GROUP

Get the benefits you want and need from the Zaner Group.

- Levels of service – Choose any combination of service you need....Whether you prefer to trade independently, with broker-assistance, through our Order Desk or through a managed account.
- Competitive commission rates.
- Personalized attention. At Zaner all clients, even 100% self-directed traders, have a personal, dedicated Series-3 licensed account executive they can rely on for questions, assistance and information.
- Online data – Up-to-the-minute market activity, account statements, customizable charts, education library and exclusive research.
- Choose from over a dozen execution platforms.
- Free subscription to www.Markethead.com/2.0

For more information on trading the E-micro currencies or any exchange-listed futures contracts or spot forex, contact the Zaner Group:

Toll-free: (800) 621-1414 or (312) 277-0050

We invite you to join the thousands of other Zaner clients who have enjoyed our offerings of industry-leading technology and dedicated client support at competitive commission rates.

The first step is to complete our no-obligation, one page Account Application, which can be found at our website (Open An Account) or by pasting this link into your browser:

http://www.zaner.com/3.0/how_to_open_an_account.asp

Footnote

1. Please note: EUR/USD, GBP/USD and AUD/USD can be fully offset with the larger CME FX contracts. USD/JPY, USD/CAD and USD/CHF all have a high percentage of margin offset with the larger CME FX contracts but cannot be fully offset with the larger CME FX contracts.

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Transactions in futures, options and forex are speculative in nature and involve substantial risk of loss and is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge and financial resources. The information in this report and the opinions expressed herein are subject to change without notice.

You should be aware that E-micro forex futures contracts are leveraged investments. The effect of leverage is that even relatively small price movements may result in immediate and substantial losses greater than the margin requirement.

Trading in thinly traded contracts, such as certain e-micro currency futures contracts, carries additional risks, including slippage and potentially wide bid/offer spreads. This may make it difficult to initiate or liquidate a position close to the last traded price.

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