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CME Group

Tailoring Index Futures and Options to Any Market Outlook

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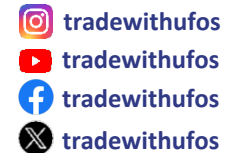
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Tailoring Index Futures and Options to Any Market Outlook



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Agenda

1. Introductions
2. Understanding Index Futures
3. Exploring Options on Index Futures
4. Futures and Options Real-Time Applications
5. Questions & Answers

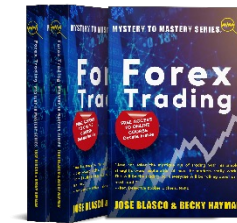
Introduction

Traddictiv Pte. Ltd.

is a trading technology company that provides intelligent tools for traders, investors and hedgers. They also offer education for everyone from the hobbyist to the professional, always along with their patented and easy-to-use trading technology.

Jose Blasco

is a versatile multi-asset trader with expertise in options, equities, futures, and currencies. As the Principal of Traddictiv PTE. LTD., he develops advanced trading technology and implements diverse strategies across global markets. With accolades as an award-winning instructor, published author, and former engineering professor, Jose regularly appears in in-person and online events, sharing his knowledge, experience, and passion for trading and technology with others. His multilingual skills keep him connected to international markets, providing a global perspective for his trading endeavors.



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- Online Trading
- Risk Management
- Foreign Exchange

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Index Futures

8 Groups:

Futures Markets can be classified in 8 groups, today we will be focusing on Indices: **Index Futures and Options in Index Futures**

1. **Currencies** – Contracts deriving their value from currencies or cryptos
2. **Energies** – Contracts deriving their value from products such as oil, gas, etc.
3. **Financials** – Contracts deriving their value from treasury notes, bonds, etc.
4. **Grains** – Contracts deriving their value from agricultural products
5. **Indices** – Contracts deriving their value from various Market Indices
6. **Meats** – Contracts deriving their value from meat and dairy products
7. **Metals** – Contracts deriving their value from precious metals
8. **Softs** – Contracts deriving their value from grown products

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Futures/Options = Contracts

Contracts:

- Is the “thing” that is either bought or sold when trading Futures
- Similar to Shares when trading Stocks, but only involves ownership/delivery on a Future date, hence its name
- The price of such contracts derive from an underlying asset which could be deliverable or not (Gold is deliverable, while S&P500 cannot be and in such case, S&P contracts are cash settled)
- Represent a large amount and are traded on Leverage

E-minis and Micro E-minis:

- Are contracts of a smaller size
- Very popular amongst retail traders (including small accounts)

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Contract Specifications

Market	Root	Expirations	Tick	Tick Value	Closed	Hours*
S&P ⁵⁰⁰	ES	H, M, U, Z	0.25	\$12.5	1 ^{h/d}	6-5p
NASDAQ ¹⁰⁰	NQ	H, M, U, Z	0.25	\$5	1 ^{h/d}	6-5p

*Times are expressed as US EST (New York Time)



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E-mini and Micro E-mini

Micro E-minis Market Roots:

Underlying	E-mini Root	Micro Root	mF	Mv
S&P ⁵⁰⁰	ES	MES	0.25	\$1.25
NASDAQ ¹⁰⁰	NQ	MNQ	0.25	\$0.50

*Micro E-minis are 1/10th of the E-minis Size

mF = minimum fluctuation

Mv = multiplier value

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Margins

Current Requirements:

Underlying	E-mini Margin	Micro Margin
S&P ⁵⁰⁰	\$11,500	\$1,150
NASDAQ ¹⁰⁰	\$21,600	\$2,160

- *Margin values have been rounded for simplicity.
- *Margins change from time to time based on volatility conditions.
- *Check the updated values here:

<https://www.interactivebrokers.com/en/trading/margin-futures-fops.php>

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Index Futures Liquidity

Micro E-mini S&P 500 Futures

1B contracts
Milestone on
August 23, 2023

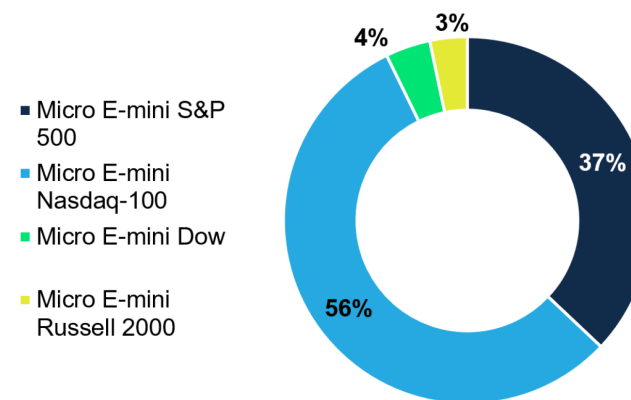
860K contracts
traded daily on
average in 1H 2024

Micro E-mini Nasdaq-100 Futures

1B contracts
Milestone on
September 13, 2023

1.3M contracts
traded daily on
average in 1H 2024

2024 YTD ADV by Product



Source: CME Group

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Options on Futures

Options on futures are like holding a ticket to buy or sell something later, but with the option to back out.

Imagine you're at a pizza place, and you pay a small fee to reserve the right to buy a pizza next week at today's price. If the price of pizza goes up next week, you can use your ticket to get the pizza at the cheaper price, and you've got a good deal! But if the price stays the same or drops, you can skip the pizza and all you lose is that small reservation fee. It's like giving yourself a "maybe I will, maybe I won't" choice on a future deal!

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Options Give Options

Apart from exploiting the right to buy (Calls), we could also exploit the right to sell (Puts). Combining Options Contracts (Spreads) is a very common and a very efficient way on how to adapt to market conditions.

It's like going to the pizza place and buying tickets to both buy and sell pizzas, just in case prices go crazy. This way, no matter what happens, you have a strategy to either enjoy a great deal, protect yourself from losses, or even make a profit from the swings in pizza prices!

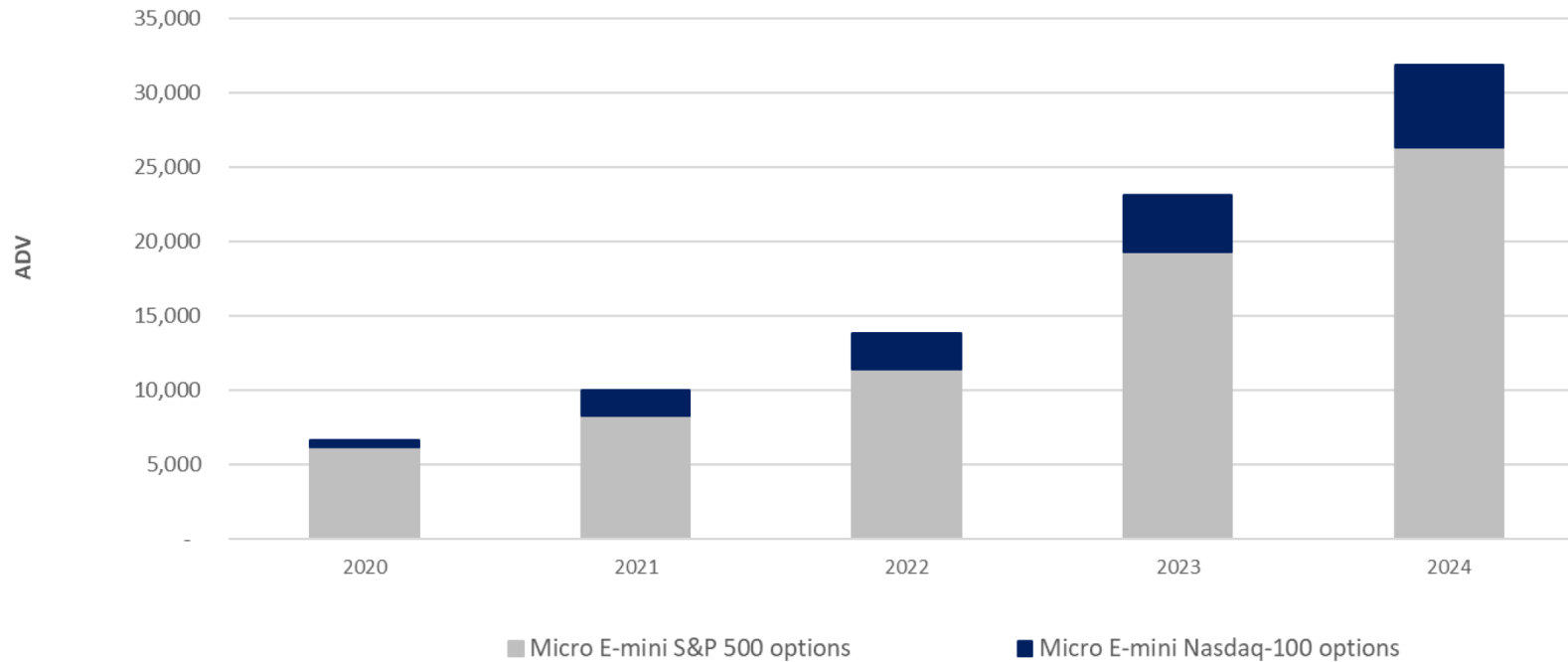
These combinations can get pretty creative, kind of like ordering a half-and-half pizza with extra toppings—each combination is designed to suit different tastes and protect against different price changes.

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Options Liquidity

Micro E-mini Options Annual ADV



Source: CME Group

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Defining Your Outlook

We have learned about how versatile Index Futures and Options on Index Futures are.

Before taking action and executing a trade:

- Traders and investors must identify the current market condition (we will call this step, Step 1)
- Traders and investors must define their entries and exits (we will call this step, Step 2)

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Step 1

Should I be a Buyer or a Seller?

Is it time to trade directionally or non-directionally?

There are many ways on how to carry this analysis out.
Here are a few examples:

Moving Averages | MACD | Volume Analysis | Trendlines/Channels | Elliott Wave Theory | ADX (Average Directional Index) / DMI | Ichimoku Cloud | Parabolic SAR (Stop and Reverse) | Economic Indicators | Market Breadth Indicators | Divergence Analysis | Seasonal Trends | Etc.

Let's apply some of these techniques to ES/NQ and Options on ES/NQ

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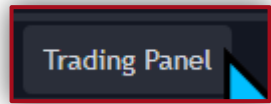
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Charts

We will use TradingView connected to IBKR

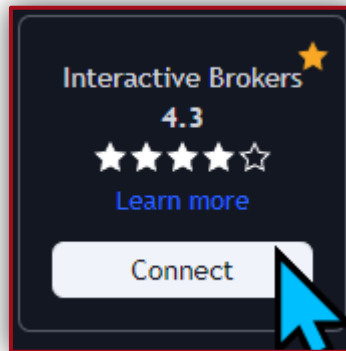
1.

Click on the TradingView Trading Panel



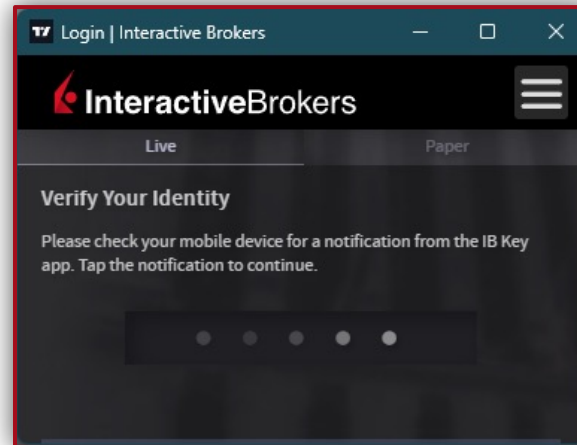
2.

Select Interactive Brokers



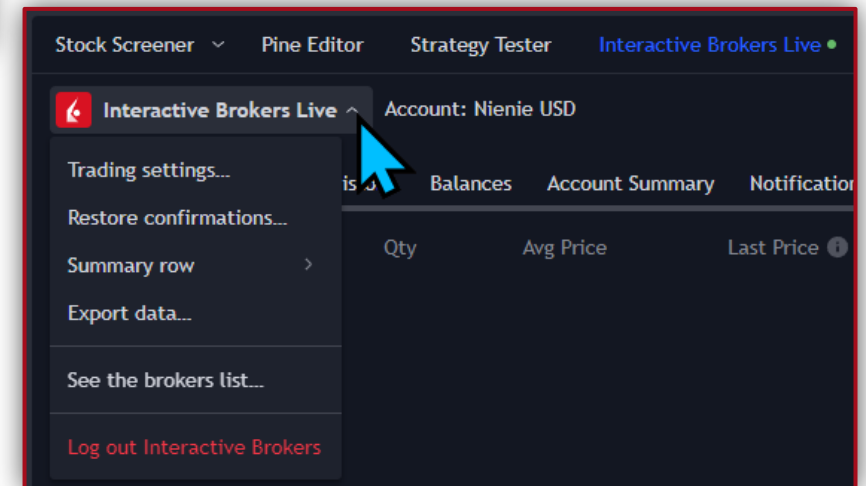
3.

Enter your Credentials and Verify your Identity



4.

The Trading Panel has now changed to Interactive Brokers Live



Step 2

What is potentially an ideal Buying Price or Selling Price?

What is potentially a realistic Trading Range?

There are many ways on how to carry this analysis out. Here are a few examples:

Support and Resistance Levels | Fibonacci Retracement Levels | Swing Highs/Lows | Pivot Points | Psychological Levels | Breakouts/Breakdowns | Trendline Breaks | Candlestick Patterns | Chart Patterns | Moving Average | MACD Crossovers | Stochastic Oscillator Crosses | Oscillators Overbought/sold Conditions | Bollinger Band Bounces | Gap Trading | Etc.

Let's apply some of these techniques to ES/NQ and Options on ES/NQ

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Risk Management

Importance of Risk Management

- **Protecting Your Capital:** The primary goal of risk management is to protect your trading capital from significant losses.
- **Ensuring Long-Term Success:** Effective risk management helps in sustaining trading activities over the long term by minimizing potential losses.
- **Mitigating Emotional Trading:** Having a risk management plan reduces the impact of emotions on trading decisions, leading to more rational and calculated actions.
- **Convenience of Micro Contracts:** Using Micro futures contracts allows traders to manage position sizes more precisely, reducing risk and making futures trading more accessible for smaller accounts.

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Additional Resources

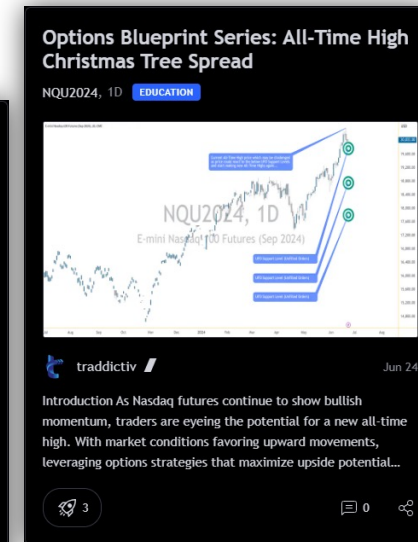
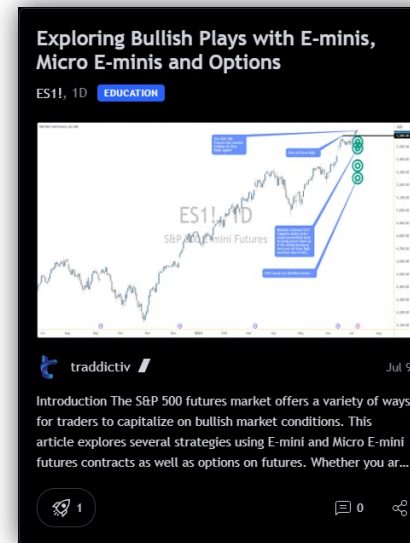
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