

DERIVATIVES MARKET

Moscow Exchange's Derivatives Market is Russia's largest and one of the world's leading venues for derivatives trading. The market brings together deep liquidity, a broad product offering, performance guarantees from the Central Counterparty and state-of-the-art technologies for the trading of futures and options. Derivatives Market participants can trade derivative financial instruments on indices, Russian and foreign shares, Russian government bonds (OFZ), foreign currencies, interest rates and commodities (oil, precious metals and industrial metals, agricultural products).

Trading volumes

In 2019, the total trading volumes on the Derivatives Market amounted to RUB 82.4 trln, or 1,455 mln contracts (versus RUB 89.3 trln or 1,500 contracts in 2018), including futures trading volumes of RUB 77.4 trln and options trading volumes of RUB 5.0 trln.

The year-on-year decrease in trading volumes on the Derivatives Market was mainly due to the decrease in the volume of trading of FX against a background of low exchange rate volatility. Nonetheless, Moscow Exchange was one of the top three exchanges globally by FX futures trading volume, according to the Futures Industry Association (FIA).

At the same time, trading volume in commodity derivatives continued to grow steadily: in 2019, commodity futures volumes increased by 32% to RUB 27.5 trln, primarily driven by Brent crude oil contracts, which posted a 30% increase in volumes. According to the FIA, in 2019 Moscow Exchange maintained the top position globally for Brent futures in terms of the number of contracts traded for the second year in a row.

At the same time, the volume of open positions across nearly all instruments increased, which indicates an increase in long-term investment demand. The total volume of open positions in the Derivatives Market as of the end of 2019 increased by 35% compared to the end of 2018, to RUB 614.9 bln. The volume of open positions in commodity futures increased by 2.6 times to RUB 131.1 bln.

Derivatives Market

	2016	2017	2018	2019	Change 2019/2018 (%)
Derivatives Market trading volumes, RUB billion	115,271	84,497	89,263	82,370	-7.7
Futures	109,489	77,624	82,397	77,376	-6.1
Options	5,782	6,873	6,866	4,994	-27.3
Futures, RUB billion	109,489	77,624	82,397	77,376	-6.1
FX	64,561	39,460	37,868	28,996	-23.4
Interest rates	27	17	10	12	15.4
Single stock	3,529	3,383	4,439	4,345	-2.1
Indices	26,138	18,486	19,161	16,504	-13.9
Commodities	15,234	16,278	20,918	27,519	31.6
Options, RUB billion	5,782	6,873	6,866	4,994	-27.3
FX	2,119	2,184	2,047	1,478	-27.8
Single stock	87	35	25	51	100.9
Indices	3,434	4,440	4,438	3,107	-30.0
Commodities	142	213	356	358	0.5

New product offering

In 2019, the Derivatives Market continued to actively expand the line of derivatives on various types of assets with the aim of providing additional trading and hedging opportunities to professional participants and portfolio managers as well as retail investors.

In March, the Exchange launched trading of deliverable futures contracts and options on futures of ordinary shares of PJSC Polyus and Magnitogorsk Iron & Steel Works. As of the end of 2019, 24 futures and 24 options contracts of shares of 22 Russian issuers were available to Derivatives Market participants. In 2019, trading volume in futures and options on Russian stocks amounted to RUB 4.4 trln.

In May, the Derivatives Market began trading settlement futures contracts for the RUSFAR (Russian Secured Funding Average Rate) Money Market rate, calculated on the basis of orders and transactions of the Russian repo market with the CCP in general collateral certificates (GCC).

New contracts provide various trading strategies to Money Market participants:

- ▶ hedging of interest income when placing/raising funds secured by GCC;
- ▶ hedging a portfolio of securities;
- ▶ investing in one-month Money Market instruments.

+35%

growth of open interest in derivatives in 2019

In October, trading of deliverable silver futures began on the Derivatives Market. The new contract expanded the range of deliverable commodity derivatives: a year earlier, the Exchange started trading in deliverable gold futures. Gold and silver are supplied to the spot market of precious metals of the Exchange. The new tool promotes the development of the Exchange's precious metals market, provides additional trading opportunities for both private investors and professional participants (banks and brokers), as well as participants in the precious metals market, including jewelry companies and non-ferrous metal working plants.

Technological development

At the beginning of 2019, the possibility of separating trading and clearing memberships was introduced on the Derivatives Market. As a result, foreign companies were able to independently carry out clearing and settlement of their own transactions and transactions of their clients concluded on the Exchange's markets. This will allow investment companies to offer their institutional customers security lodging and safekeeping of cash assets directly on NCC accounts, which minimizes counterparty and credit risks for international clients trading on the Exchange.

In August, Derivatives Market participants were provided with an online registration service for new customers. This was the final step in online customer registration becoming available on all the Exchange's major markets: the Equity and Bond Market, the FX Market and the Derivatives Market. Using the new service, clients of trading participants are able to access and begin to conduct transactions with futures and options within a few seconds from the moment of concluding an agreement with a broker or bank. Previously, this procedure took nearly 24 hours. Since this service was rolled out on the Derivatives Market, more than 220,000 customer accounts have been opened.

Liquidity

In order to grow liquidity of derivatives and improve the quality of the Exchange order book, a number of significant changes were made to liquidity incentive programs on the Derivatives Market in 2019. These changes focused on increasing market and financial efficiency of existing market-maker programs, as well as attracting large market participants for quoting.

New programs to support liquidity were launched, including linking instruments across trading strategies, for cross-market pairs of instruments and for a series of long-term options. The criteria was also established to select participants in the programs.

In total, in 2019 more than 70% of instruments were supported by market makers, some of which were new interest and commodity futures, as well as index options launched during the year.

Standardized Derivatives Market

MOEX's Standardized Derivatives Market was created in 2013 in response to a G20 resolution on strengthening the role of the Central Counterparty in financial markets and the need to transition trading in standardized derivative financial instruments to on-exchange marketplaces.

In 2019, the Exchange observed a shift in the structure of transactions concluded in the Standardized Derivatives Market. The greatest activity was recorded in operations with cross currency and interest rate swaps and interest rate swaps. Trading volume in interest rate derivatives in 2019 more than doubled. The volume of open positions at the end of 2019 increased by 47% year-on-year and reached RUB 440 bln. On average, the tenor of transactions concluded in 2019 roughly doubled. The total number of participants in the Standardized Derivatives Market increased by 14% to 48.

In 2019, the Standardized Derivatives Market was connected to the NCC settlement infrastructure and to the Unified Collateral Pool technology, giving participants the opportunity to use unified collateral and a single account on the Exchange markets.

In May 2019, a new instrument for hedging interest rate risk with a tenor of up to one year became available to Standardized Derivatives Market participants, the Overnight Index Swap (OIS) for RUSFAR rate. Banks that are participants of the Standardized Derivatives Market were able to effectively manage interest rate risks and expand their product offerings, including through the introduction of floating rate loan products for corporate clients.