



# CME Group (NASDAQ: CME)

**BUY**

Target Price: US\$ 332.96 (+25% Upside)

Current Price: US\$ 266.40 (20 March)

Investment Horizon: 2 years

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# Our View Relative To The Street



We believe that CME is fundamentally undervalued by street and that the market is overpricing CME's risks

## Street View

### FMX, a new futures exchange, will pose as a serious threat to CME's core business

- FMX, founded by current US Secretary of Commerce Howard Lutnick, has promised little to no transaction fees and has secured equity investment from 7 of the top 10 future clearing merchants, market-making support from Citadel Securities and cross-margining with London Clearing House-cleared FX swaps, making it a credit near-to-medium term threat to CME's rates business.

### Interest rate trading will slow as the Federal Reserve cuts rates

- As the Federal Reserve begins its rate-cutting cycle, trading volumes in interest rates trading will go into a downtrend as there is less need to hedge interest rate risks.
- CME's high reliance on trading revenue (c. 77%) relative to peers (c. 35%-40%) will cause it to underperform peers in a volume downturn.

### CME's growth ex-rates will slow as competitors gain market share

- Street points to the past on how CME has been losing market share in particular products (e.g. Brent crude by ICE, equity futures & options ("F&O") by Cboe) and thus CME will be increasingly forced to rely on its rates trading business to gain revenue. As such, they view CME as a mature business with slow topline growth relative to peers.

## Our View

### FMX has got off to an extremely slow start; with street being bamboozled by sell-side

- FMX launched in September 2024, but its cumulative volume till date is dwarfed by CME's average daily volume. We believe FMX will fail due to CME's natural moat.
- However, institutional sell-side has been showering praise on FMX and labelling it a real CME threat, subsequently downgrading CME's rating. We believe this to be part of sell-side's promotions to clients on FMX due to their equity interest in FMX.

### Structural risks and regulatory shifts will continue to create demand for trading

- We are seeing a decoupling of the traditional relationship between volume and interest rates due to increased uncertainty regarding tariffs, wars and interest rates. Continued policy volatility by the Trump administration will drive volumes forward.
- We believe the market is not pricing in structural shifts brought on by Basel IV which will lead the shift away from OTC into ETDs dominated by CME.

### CME's continued innovation in products and deep network effects make it a winner

- CME's drop in market share is due to their strategy to focus on key products and geographies, which have maintained their best-in-class margins relative to peers.
- While CME has gave up market share on particular products, they have gained inroads in others and their business model and innovative strategy will put them in an ideal position to capitalize on shifting industry trends.

We believe that street is undervaluing the stock fundamentally, and that clear near-term catalysts will induce a re-rating of the stock over the next 24 months

# Company Overview

CME Group is the biggest financial derivatives exchange in the world



CME Group offers derivative products across a wide spectrum on its owned exchanges



Rates	Equities	FX	Commodities	Metals	Crypto
SOFR US Treasury Fed Funds	E-mini S&P500 Nasdaq100 Russell2000	FX F&Os Euro Swaps JPY Swaps GBP Swaps AUD Swaps	Corn Soybean Wheat WTI Crude Oil	Gold Silver Copper Lithium	BTC Futures ETH Futures BTC Friday Futures

CME offers a marketplace for investors/traders to speculate or hedge their risks

## Major Milestones of CME Group

<b>1992</b> Industry's first electronic trading platform: CME Globex	<b>2001</b> Ranked largest futures exchange in the US	<b>2009</b> Acquisition of New York Mercantile Exchange and COMEX	<b>2018</b> Acquisition of NEX, combined futures, cash and OTC offerings
<b>1997</b> Launched the first mini-sized futures and first equity index futures	<b>2007</b> Acquisition of Chicago Board of Trade	<b>2017</b> Launched first regulated Bitcoin futures	<b>2021</b> Announced partnership with Google Cloud

CME is led by a strong management team with a wealth of experience



**Terence A. Duffy**  
Chairman and CEO

*25+ Years of Experience*  
Chairman since 2002 and CEO since 2016.



**Mike Dennis**  
Global Head of Fixed Income

*20+ Years of Experience*  
Ex-Chief Commercial Officer, ABN AMRO Clearing



**Tim McCourt**  
Global Head, Financial & OTC Products

*25+ Years of Experience*  
Led the introduction of BTC & ETH futures in 2017.

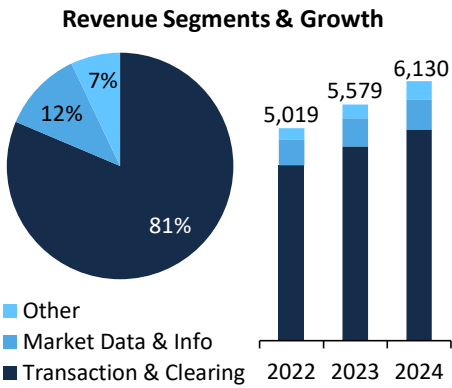


**Derek Sammann**  
Global Head, Commodities

*35+ Years of Experience*  
Led the development of the commodities portfolio.

## Key Financial Highlights

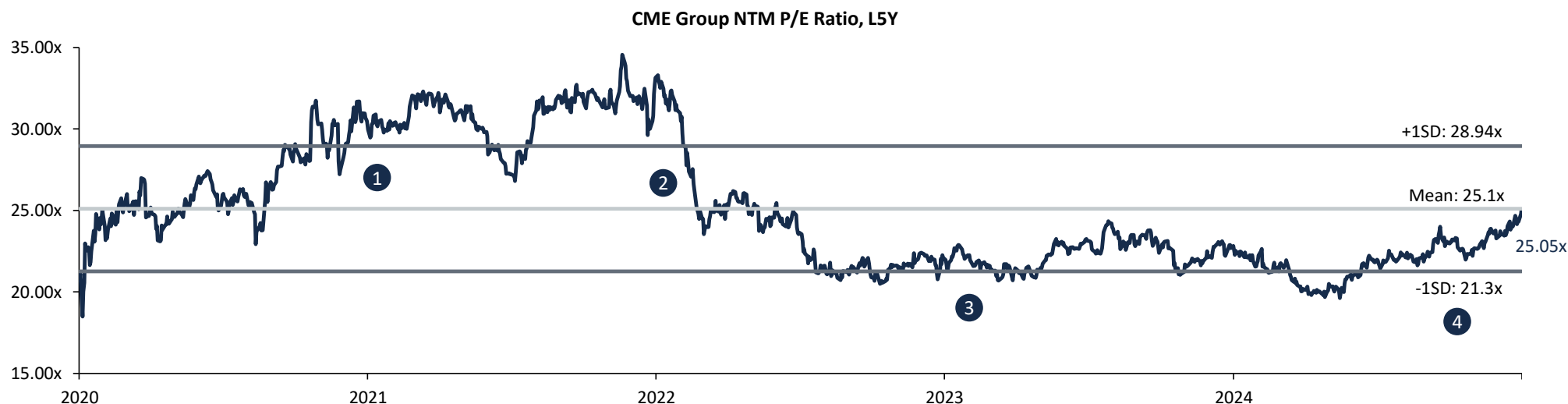
<b>USD 95b</b> Market Cap <sup>1</sup>	<b>USD 3.5b</b> FY24 Net Income
<b>26m</b> FY 24 Average Daily Volume	<b>26.8x</b> EV/EBITDA (LTM)



# Key Drivers of Share Price



CME recently traded back to its L5Y average forward P/E, we expect P/E ratio to increase



1

## COVID Pandemic Makes Defensive Stocks Attractive

Economic uncertainties of the pandemic made CME more attractive to investors, with its defensive nature and predictable cash flows and topline growth even in times of crisis, making it a safe haven for investors.

2

## CME Earnings Skyrocket While Investor Sentiment Muted

Increased volatility and higher trading boosted CME's profitability. However, external market conditions led to a disconnect between earnings performance and share price movement.

3

## Expectations on US Election

Market expectations shifted, particularly with increasing speculation on Trump's re-election prospects, causing movements in major currency pairs, influencing trading activity and impacting CME's volumes in FX and derivatives markets.

4

## Increasing Market Uncertainty Spurs Defensive Stocks

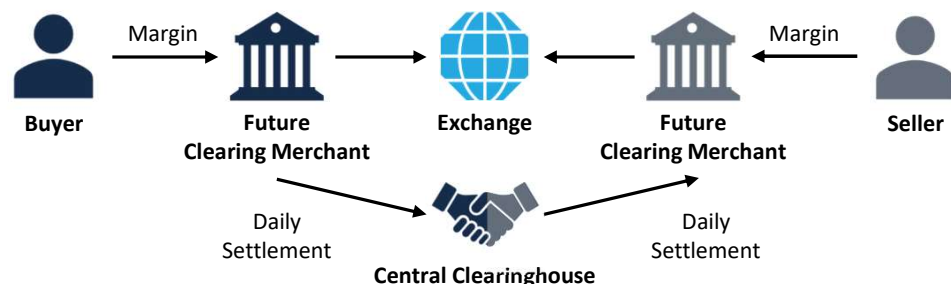
CME's business model thrives in uncertain environments as investors use its exchange for hedging against volatility, rate changes, and economic instability, resulting in a renewed investor focus on CME as a stable, counter-cyclical asset.

# Company Overview – Business Model



CME mainly generates its revenues by charging transaction fees on trades that go through its exchanges

Trading derivatives involves multiple parties, each collecting their own fee



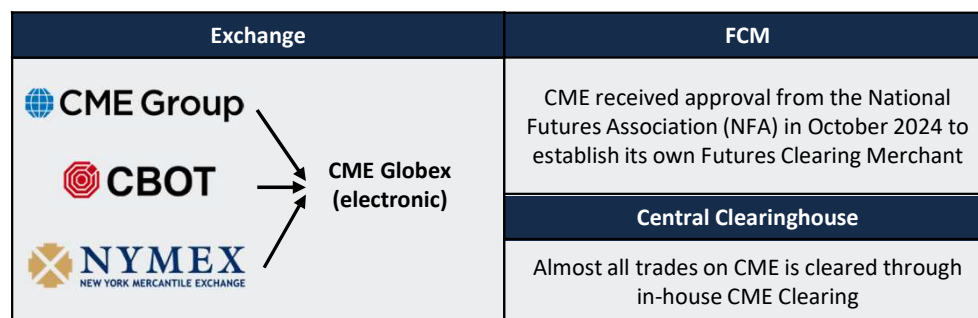
CME helps match orders while a central clearinghouse assumes all counterparty risk

CME's fee structures are very loose and often negotiated with clients

	FCM	Exchange	Clearinghouse
Fee Type	Brokering Fee	Transaction Fee	Clearing Fee
Fee per Contract *	~\$0.50 (micro) ~\$1.50 (standard)	~\$0.35 (micro) ~\$1.38 (standard)	
Total Fee per Contract *		~\$0.85 (micro) ~\$2.88 (standard)	
Initial Margin *		~\$1,320 (micro) ~13,200 (standard)	

The exchange and clearing fees represent a miniscule portion of total upfront cost

CME maintains a vertically integrated ecosystem across the derivatives complex



A centralized ecosystem offer clients more convenience and efficiency

CME delivers immense implicit cost savings to clients through cross-margining



Cross-margining reduces or eliminates the opportunity cost of margin

# Industry Overview



Financial derivatives have seen explosive growth as geopolitical and market uncertainties flare

Market share across different products are usually concentrated within 1-2 exchanges

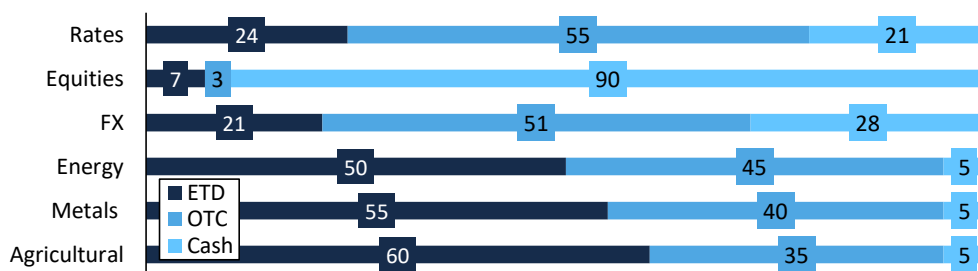
Notional Value Traded, NA & EMEA Market Share by Product Category (%)

	CME	HKEX	ICE	CBOE	DB	Notional \$tn
Rates	76%	-	15%	-	8%	2,822
Equities	10%	-	15%	23%	6%	424
FX	94%	-	3%	-	3%	47
Energy	40%	-	60%	-	-	37
Metals	50%	50%	-	-	-	51
Agricultural	71%	-	23%	-	6%	20

CME dominates or maintains a strong presence in almost every product category

Investors can choose from spot, over-the-counter and exchange-traded derivatives

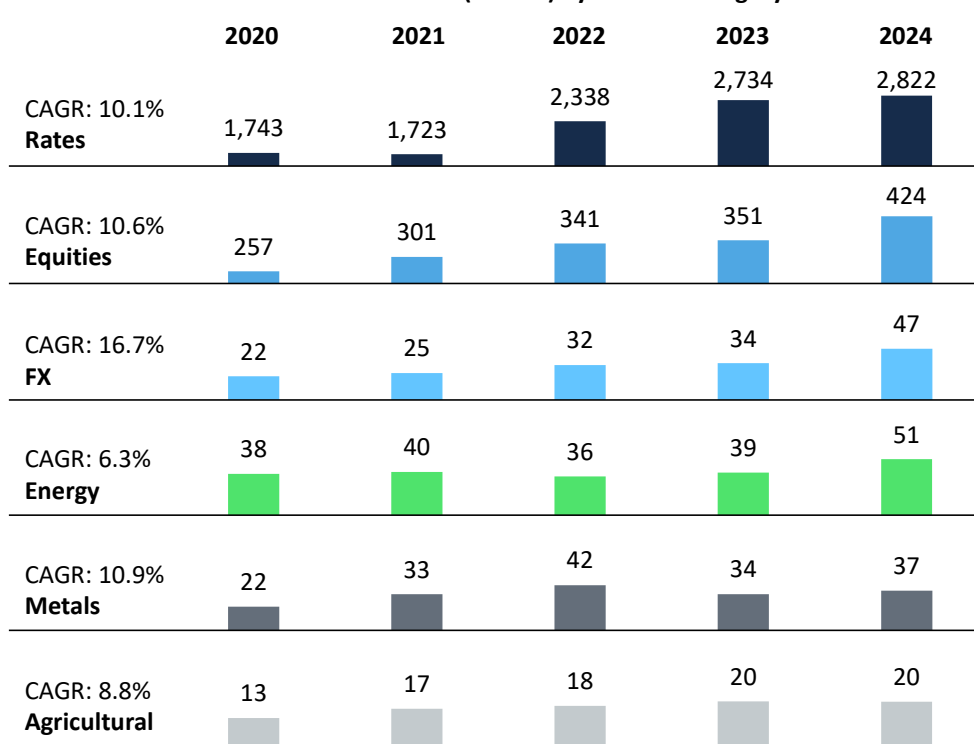
Notional Value Outstanding, by Share of Financial Instrument (%)



Exchange-traded derivatives ("ETD") still serve a small portion of select markets

Almost every derivative product has seen double digit annual growth

Notional Value Traded (USD tn) by Product Category



Trading activity grew significantly due to increased geopolitical and market risks



# Competitive Landscape

While there are many financial exchanges, they each carve out their own niche in the market



	CME Group Inc (NASDAQ: CME)	Intercontinental Exchange Inc (NYSE: ICE)	Cboe Global Markets Inc (BAT: CBOE)	Hong Kong Exchange & Clearing Ltd (HKG: 0388)	Deutsche Borse AG (ETR: DB1)
Market Cap (USD bn) <sup>1</sup>	95	98	22	58	48
Revenue (USD bn) <sup>2</sup>	6.1	9.3	2.1	2.86	6.37
Cash Trading Rev % <sup>2</sup>	4%	3%	41%	40%	6%
Derivatives Rev % <sup>2</sup>	77%	35%	45%	42%	40%
Operating Margin (%) <sup>2</sup>	64	46	56	70	50
P/E Ratio (LTM) <sup>3</sup>	26.8	35	29.8	34.4	26.3
Dividend Yield (%) <sup>4</sup>	4.0	1.1	1.2	2.7	1.5
Avg. Daily Volume (ADV) (Contracts mn) <sup>2</sup>	26.5	8.0	15.0	1.6	8.0
Avg. Revenue per Contract (RPC) (USD) <sup>2</sup>	0.70	0.65	0.30	1.61	N.A.
Global Reach (Revenue by Region) <sup>2</sup>	~70% Americas ~30% International	Global (Americas & Europe)	Mainly Americas (expanding in EU & APAC)	Asia (HKEX) Europe (LME)	Europe

Notes: <sup>1</sup> As of 16 March 2025. <sup>2</sup> 2024 Annual Filings from respective companies. <sup>3</sup> Extracted from Capital IQ. <sup>4</sup> TTM Dividends / Share Price as of 16 March 2025.

Executive Summary

Company Overview

Industry Overview

Investment Theses

Valuation

Investment Overview

Sources: Company 10Ks and Annual Filings, Capital IQ

# Thesis 1 – FMX is not a threat

Street believes FMX’s star partners would make it a major player in rates derivatives



Major sell-side banks have been touting FMX as a competitor to CME

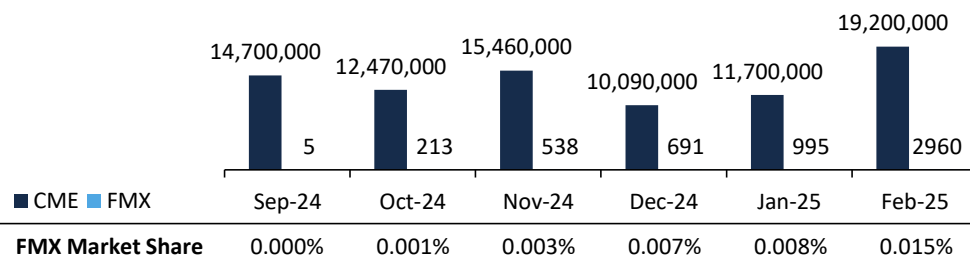
J.P.Morgan “We continue to see FMX as a **competitive threat...**” – Q424 review

Sell	Hold	Buy
  	  Morgan Stanley	  

Reputable sell-side firms have been causing negative sentiment to CME stock

One might expect FMX’s launch in Sept-24 to be a great success

Interest Rates Average Daily Volume since FMX launch



FMX did not even create a dent in CME’s rate complex since its inception

Coincidentally, there is correlation between FMX’s equity partners and –ve CME rating

FMX Equity Investors

Future Clearing Merchants	Market Makers

We believe that FCMs are more interested in promoting FMX than assessing CME fairly

FMX founder Howard Lutnick and many others have tried to challenge CME in rates

Year Launched	Year Discontinued	Peak Market Share	Commentary
2000	2005	c.1-3%	-
2005	2010	c.1-2%	Backed by Euronext
2009	2011	c.2-3%	Backed by JPM, GS
2015	2018	c.<1%	-

History tells us that FMX will see limited success in breaking the dominance of CME

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Sources: CME Group, JP Morgan, Company Annual Filings

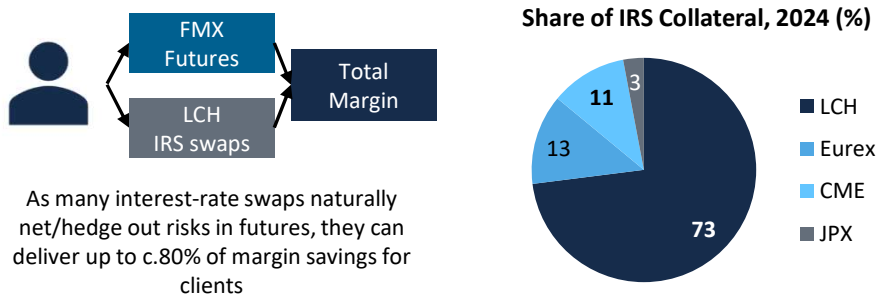


# Thesis 1 – FMX is not a threat

Street believes that FMX’s cross-margining agreement with LCH is the game changer



## FMX struck a partnership with LCH to cross-margin with LCH-cleared IRS swaps

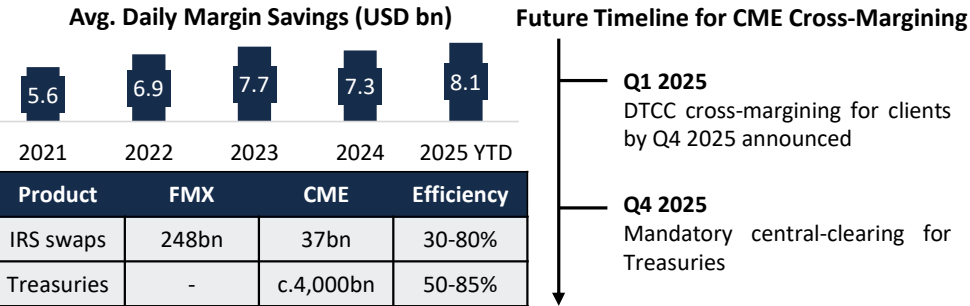


Street believes that margin savings would be enough for FMX to gain market share

## Investors look at total cost to trade (TCT) when considering where to trade

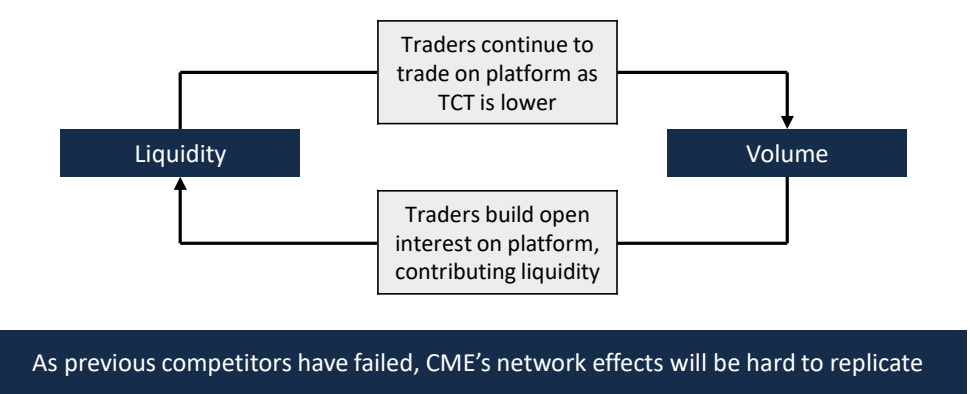
Total Cost to Trade =			
	Trading Fees	Liquidity	Margin Savings
Cost Type	Explicit		Implicit
CME	↓	↑	=
FMX	↑	↓	=
% of TCT	5%	25%	70%
Commentary	FMX is waiving trading fees for early-bird clients	CME dwarfs FMX in terms of liquidity and open interest	LCH partnership makes FMX on par with CME

## CME has more expansive cross-margining across wider products



CME’s cross-margining program is arguably more comprehensive than FMX

## Liquidity and volume are network effects, a key feature of CME’s natural monopoly

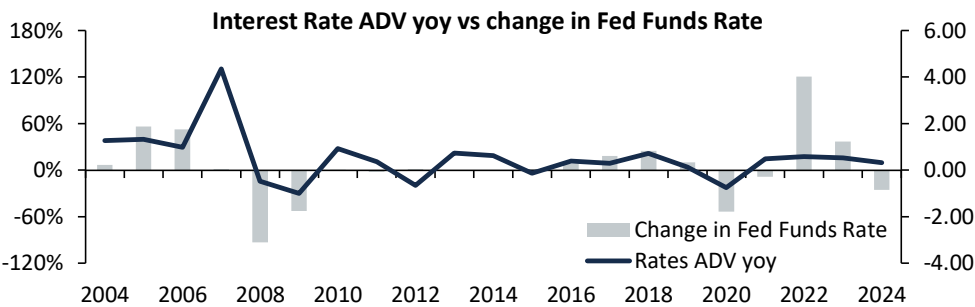


# Thesis 2 – Trading Volumes will Remain Elevated



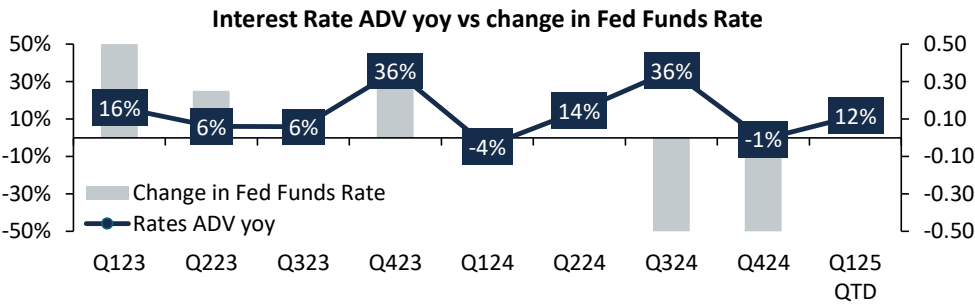
Street believes that interest rate cuts by the Fed will temper demand for hedging

Rates volume has historically trended with the interest rate cut/hike cycle



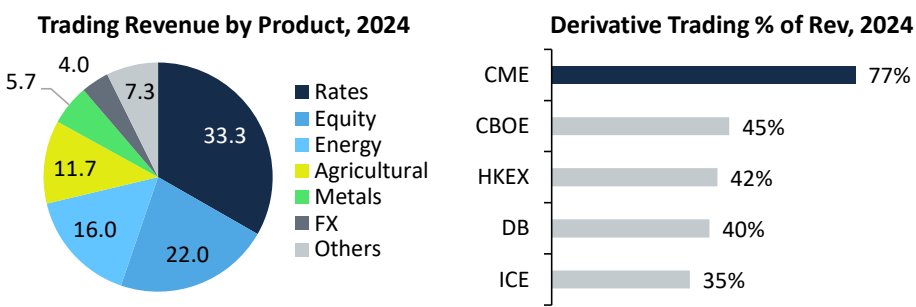
Many believe CME is heading into a volume downturn due to this historical relationship

However, interest rate ADV has been decoupling from the rate/hike cycle



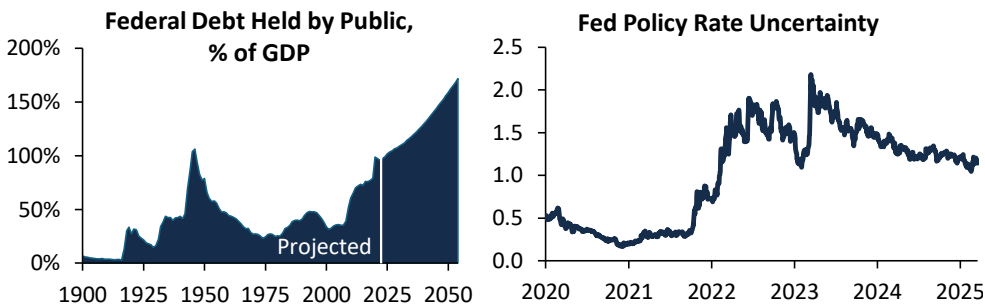
We believe that this decoupling would sustain into the near-term even as Fed cuts rates

CME's revenue is most sensitive to trading volumes, especially rates trading volumes



Street maintains pessimism on CME due to concentration risk in trading revenue

Structural risks and policy uncertainty will continue to mandate the need for hedging



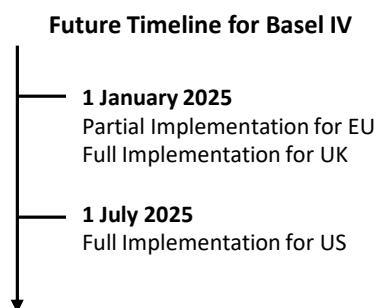
We expect continued volatility to create short-term tailwinds for rate volumes

## Thesis 2 – Trading Volumes will Remain Elevated

Street is not pricing in medium-term tailwinds from Basel IV



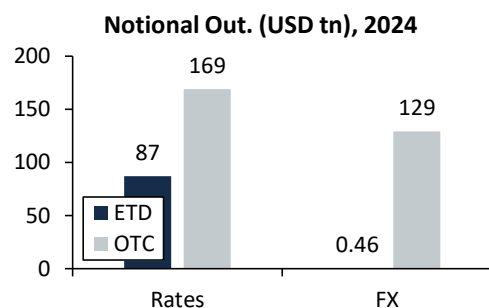
### Financial Institutions will have to adhere to Basel IV effective 2025



Rule	Pre-Basel IV	Post-Basel IV
<b>Counterparty risk</b>	Internal model (flexibility)	Standardized Approach
<b>Counterparty Valuation Adjustment</b>	Lower capital charges & exemptions for bilateral OTC	50% higher capital charges, removal of exemptions

Basel IV introduces stricter counterparty risk management for financial institutions

### Even a modest shift from OTC derivatives into ETDs will lead to a surge in volume

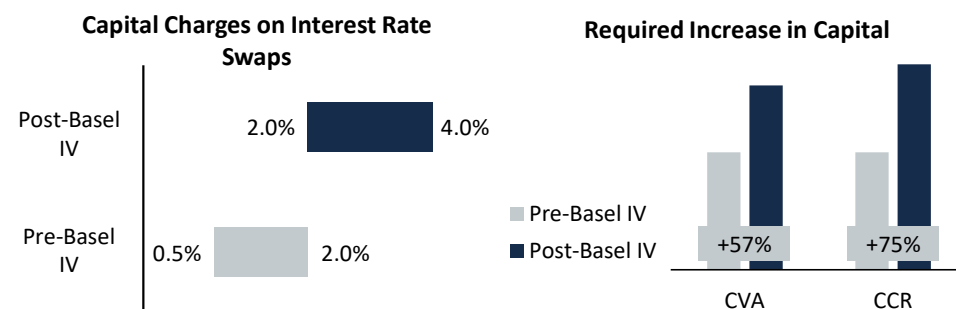


#### ETD growth if 10% OTC > ETD

20% Rates
2800% FX

Structural shifts into ETDs will spur volume for both FX and Rates

### Financial institutions are hit hard with increased capital charges on OTC derivatives



Financial institutions would have to shift to other products to reduce their charges

### CME has been capitalising on this structural shift by offering new product lines

CME Product	Competitor OTC Product	Launched Date	Open Interest yoy
Cross Currency Basis Futures	Cross Currency Basis Swaps	2024	NA
Total Return Futures	Total Return Swaps	2016	92%
ERIS SOFR Swap Futures	Interest Rate Swaps	2020	60%

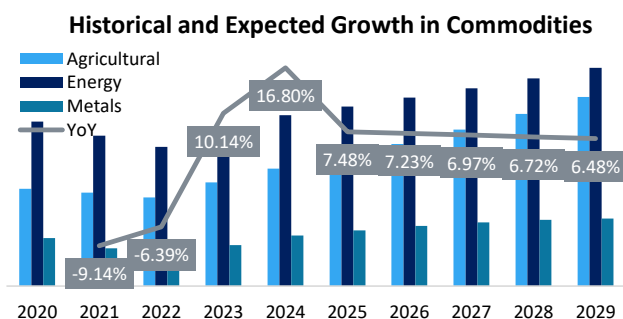
CME continue to achieve double-digit volume growths due to structural shifts

# Thesis 3 – Continued Product Innovation Across Key Markets

Investors' fear around interest rate cuts overlooks CME's proven resilience and volume stability

## Expanding market access in commodities and retail participation

CME has successfully launched micro-sized contracts in 2021 (e.g., Micro WTI Crude Oil, Micro Gold), making commodities trading accessible to smaller traders and retail investors.



The rapid adoption of micro futures trading on physical commodities is underpriced

## Strategic alliance between CME Group and Robinhood

**Futures Products Offered**

- Equity Indices:** S&P 500, Nasdaq-100, Russell 2000, Dow Jones Industrial Average.
- Cryptocurrencies:** Bitcoin, Ether.
- Foreign Exchange (FX):** Metals: Gold, Silver, Copper.
- Energy Commodities:** Crude Oil, Natural Gas.



Integration of futures into Robinhood allows CME Group to tap into a network of retail traders, increasing ADV and broadening its customer base.



Allows CME Group to diversify revenue streams, which has shown growing interest in diversified investment opportunities.



Enhances CME Group's brand recognition, positioning it as a versatile and accessible marketplace for various asset classes.

## CME Group to Launch Micro-Sized Grains and Oilseed Futures on February 2025

CME introduced micro-sized grains and oilseed futures (**Corn, Wheat, Soybean, Soybean Oil, Soybean Meal**)



- Contract size: **1/10 of standard CME commodities futures**
- Contracts are cash-settled, **simplifying participation** for investors

### Reduction of capital requirements

Attracting diverse clientele:

- Retail investors
- Smaller institutional traders (Phillip Nova)

### Strong endorsement from key brokerage partners

Saxo Bank and Interactive Brokers actively integrating CME's micro-sized futures on their platforms

### Leverage of dominant market position

Enhance market precision and risk management capabilities for existing traders

## CME's business model has allowed it to introduce new products with no upfront cost



### Asset-Light Model with scalable infrastructure

Due to CME operating as a marketplace and clearinghouse, new products (e.g. Micro WTI Crude, Micro Gold) can be introduced without significant investment in physical assets.

### Data-driven product innovation

CME leverages market demand analytics to identify gaps and introduce highly targeted products. Successful launches include Bitcoin & Ether futures, SOFR-linked products, and options on futures.

### Monetization through transaction fees

The exchange clearing mechanism ensures risk mitigation, allowing CME to expand its offerings with limited exposure. Since all contracts are settled centrally, new launches don't require additional operational infrastructure.

# Valuation

Price ranges from majority valuation methodologies

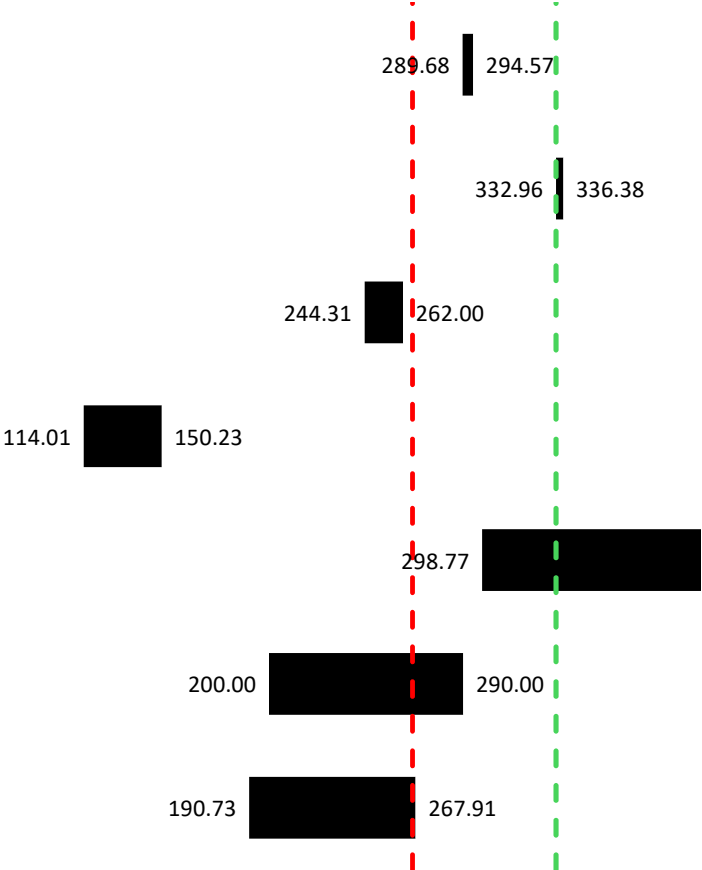


## Valuation Methodology

## Price Range (USD)

## Remarks

Trading Comparables	P/E (Median)
	P/E (75 <sup>th</sup> Percentile)
	EV/EBIT (Median)
DCF	Exit Multiple
	Perpetual Growth
Market	Analyst Targets
	52-Week Range



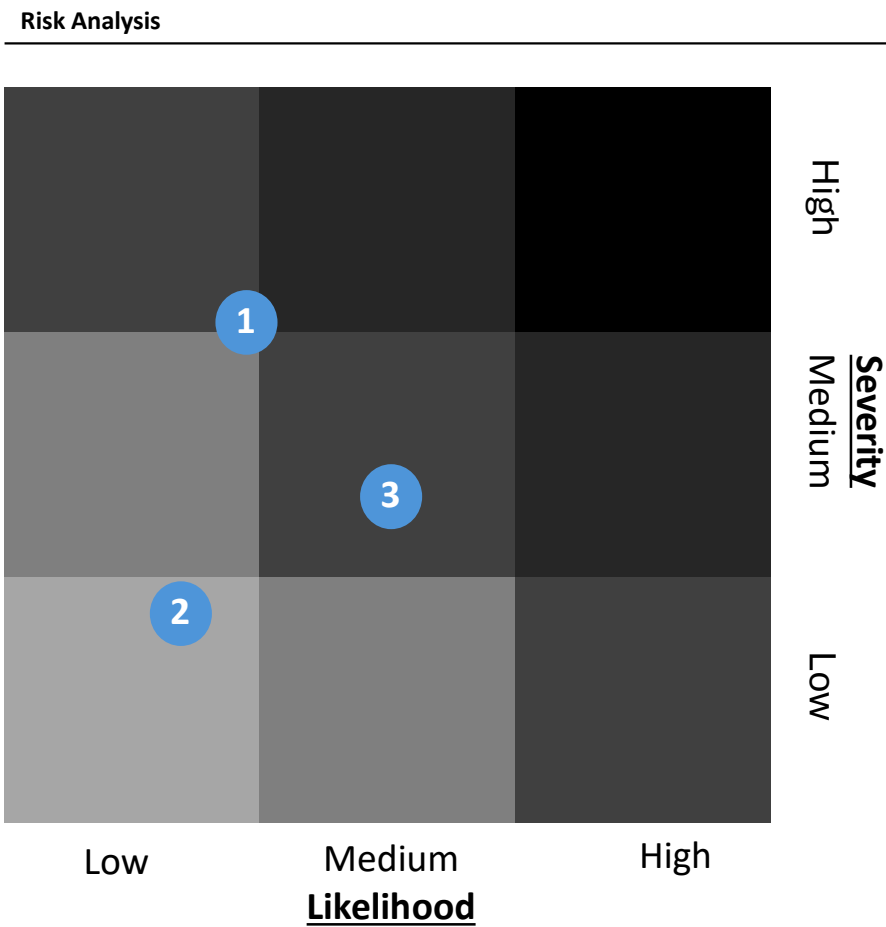
Weighted average multiple used: 23.5x-26.4x
Weighted average multiple used: 27.0x-30.1x
Weighted average multiple used: 16.41x 18.5x-19.4x
Exit Multiple (EV/EBITDA): WACC: 6.58%
Perpetuity growth rate: 2% WACC: 6.58%
High Target: 290 Low Target: 200
High: 267.91 Low: 190.73

# Investment Overview

Potential risks and foreseeable mitigations



Description	Mitigation
<div>1</div> <div>Declining interest rate ADV</div> <div>As rate cuts are anticipated in 2025 and beyond, traders may shift to longer-duration hedges, reducing short-term volatility in rate futures, which has historically driven high trading volumes.</div>	<div>CME has already transitioned 70%+ of the short-term rate complex to SOFR-based contracts, with SOFR futures volumes averaging 4M contracts/day, mitigating Eurodollar contract losses.</div>
<div>2</div> <div>FMX gaining market share</div> <div>If FMX gains traction, CME’s market share in U.S. Treasury and SOFR futures could face pressure, potentially reducing pricing power and liquidity advantages.</div>	<div>CME’s cross-margining across asset classes (equities, rates, FX, commodities) creates a significant cost advantage over FMX, ensuring that major banks and institutions stay within CME Clearing.</div>
<div>3</div> <div>Cooled down demand for new products</div> <div>The Micro Agriculture Futures (Corn, Wheat, Soy, etc.) launching in 2025 may face slow adoption if retail traders do not see the same benefits as in Micro E-mini equity contracts.</div>	<div>CME’s Micro E-mini contracts now account for ~30% of total futures trading, showing strong demand. Extending the Micro contract model to commodities and FX ensures steady product engagement.</div>







**CME Group**

**Appendix**