TMX THE FUTURE IS YOURS TO SEE.®

September 2021

MONTRÉAL EXCHANGE

Trends Shaping Trading in Canadian Equity Derivatives

In the last 18 months or so we've seen a convergence of commercial models, technology and investor appetite that have further driven high investment volumes and volatility in the markets, not just on the equity investing side but derivatives trading as well.

According to a study by FIA, global futures and options trading reached 28.9 billion contracts in the first half of 2021, up 32.1% compared to the first half of 2020. The biggest contributor to this surge was equity markets with trading volume of single stock futures and options soaring 72.5%, and equity index futures and options volume rising 32%.

Capital markets have become more global in the last 10 to 15 years. With demand from international investors for diversified asset classes and risk hedging instruments unlikely to abate, there is no better time to add Canadian equity derivative products to the investment portfolio mix.

Growing Investor Interest in Canadian Derivatives

While Canada has historically been known for its natural resources, in the last 20 years the economy has become broadly diversified to encompass manufacturing, natural resources, financial services, technology and industrials.

Historically, foreign investors have been interested in Canadian fixed income and Government of Canada bond futures contracts. But as Canadian companies become more recognized globally, we are seeing increasing interest in equity derivatives products such as the S&P/TSX 60 Index* Standard Futures (SXF), which provides investors exposure to 60 of the largest and most liquid stocks on Toronto Stock Exchange (TSX).

SXF™ is designed for institutional investors that require access to a portfolio index of the large-cap market segment of the Canadian equity marketplace in a single cost-effective transaction. As of August 2021, the total market cap of companies listed in the index was over CAD 2.43 trillion.

The SXF futures contract is primarily used by investors to hedge exposure, overlay cash and facilitate allocation shifts. It can also help capture value-added opportunities in the Canadian markets in a cost-effective and capital efficient manner.

Trading SXF futures contracts can help protect portfolio values during a market correction. Much like index put options, SXF futures contracts are used as part of the hedging strategy when anticipating market volatility. They can be sold to generate profits from a fall in futures markets or held in the portfolio to accrue dividends while the market uncertainty unfolds.

Many investors also deploy trades in SXF to rebalance their portfolio against over exposure to one type of asset class. Other benefits include achieving leveraged returns, low transaction costs compared to ETFs, efficient beta adjustment, and increasing the portfolio's returns on cash.

Extended Trading Hours for Managing Exposure to Canada

As international investors continue to trade Canadian index futures contracts, it has become increasingly important to remove frictions such as time zone barriers. Our data shows that after hours trading grew 28% year-over-year at the end of 2020 and represented a significant percentage of the average daily volume across all futures contracts available for trading.

With this in mind, the Montréal Exchange first extended its trading hours in 2018 to make it easier for investors in Europe to trade Canadian listed derivatives. On September 19, 2021, the exchange will be open for 20.5 hours a day, making it easier for investors in Asia and other regions to trade Canadian equity derivatives and bond futures contracts.

As demand for after hours trading for Canadian listed derivatives rises, Montréal Exchange's extended trading hours will facilitate access to these asset classes for international investors. Trading desks and investment managers can also manage their exposure to Canadian markets and execute cross-market strategies in their local time.

Steve Robitaille joined Montréal Exchange in 2020 as Head of Equity Derivatives, Business Development. Steve has worked on the sell side for the last 4 years at Jitneytrade/Canaccord where he was Vice President, Institutional Equities. He was responsible for the business development and the trading of Equities, Options on equities and Futures on equities. Prior to that, Steve worked for 20 years at the 2nd largest pension fund in Canada, La Caisse de Dépôt et Placement du Québec. During those years, he was responsible for a large Derivative Portfolio serving as the main Portfolio Manager and the Trader. Steve became the specialist of derivative products at La Caisse working with many other groups in the organization. From 2005 to 2015, he was a member of the advisory committee of the CBOE. Steve has a master's degree in finance, a bachelor's degree in finance and in mathematics from the HEC and the title of CFA.

For more information

T +1 514 871-3501

irderivatives@tmx.com

m-x.ca