Glossary for Retail FX

This glossary has been compiled by CME® from a number of sources. The definitions are not intended to state or suggest the correct legal significance of any word or phrase. The sole purpose of this glossary is to foster a better understanding of the foreign currency futures market.

A

American style option
An option that may be exercised at any time, ahead of the expiration date. This differs from a European style option, which may only be exercised on its expiration date.

All-or-None (AON)
At order entry, if it can execute in total, then it executes. Otherwise it stays in the order book until it can execute in total.

Appreciation
A rise in a currency's value.

Arbitrage
The simultaneous purchase and sale of identical or equivalent financial instruments in order to benefit from a price discrepancy.

As-of trade
An unmatched trade from a previous day that is resubmitted to the clearing system; trade is submitted "as of" the original trade date.

Ask
Also called "offer." Indicates a willingness to sell a futures contract at a given price.

Assignment
The designation of an option writer for fulfillment of his obligation to sell the underlying futures contract (call options writer) or buy the underlying futures contract (put option writer) upon notice from the Clearing House. Notice to the seller of an option that has been exercised by the buyer.

Associated Person (AP)
A person, commonly called a commodity broker, associated with soliciting customers and orders for a futures commission merchant or introducing broker. The AP must pass a Series 3 examination, be licensed by the Commodity Futures Trading Commission (CFTC) and be a member of the National Futures Association (NFA).

At-the-money
An option with a strike price equal to the underlying futures price.

Average daily volume
Equals volume for a specified time period divided by the number of business days within that same time period.

B

Back months
The futures or options on futures months being traded that are furthest from expiration. Also called deferred or distant months.

Balance of trade
The difference between a country's imports and exports.

Bar chart
A graph of prices, volume and open interest for a specified time period used by the chartist to forecast market trends. A daily bar chart plots each trading session's high, low and settlement prices.

Basis
The difference between the spot or cash price of a commodity and the futures price of the same or a related commodity. Basis is usually computed to the near future, and may represent different time periods, product forms, qualities and locations.

Bear
One who believes prices will move lower.

Bear market
A market in which prices are declining.

Bid
The price that the market participants are willing to pay.

Bid/ask spread
The price difference between the bid and offer price.

Book
A summary of a trader or desk's outstanding positions.

Bretton Woods Agreement of 1944
An agreement that established fixed-rate trading bands for the world's major foreign currencies. The agreement also provided for central bank currency market intervention and tied the price of the U.S. dollar to gold at $35 per ounce. The agreement collapsed in 1971, when President Nixon devalued the dollar and allowed the major currencies to "float" on the world market.

Broker
A person paid a fee or commission for executing buy or sell orders of a customer. In futures trading, the term may refer to one of several entities: 1) Floor broker — a person who actually executes the trade in the trading pit or electronically; 2) Account executive (AE), Associated Person (AP), or Registered Commodity representative (RCR) — the person who deals with customers in Futures Commission Merchant (FCM) offices; and 3) FCM — A firm or person engaged in executing orders to buy or sell futures contracts for customers. A full-service broker offers market information and advice to assist the customer in trading. A discount broker simply executes orders for customers.

Brokerage house
A firm that handles orders to buy and sell futures and options contracts for customers.

Bull
One who expects prices to rise.

Bull market
A market in which prices are rising.

Bundle
The simultaneous sale or purchase of one each of a series of consecutive futures contracts. Bundles provide a readily available, widely accepted method for executing multiple futures contracts with a single transaction.

C

Calendar spread
A futures calendar spread, or futures intra-delivery spread, is the simultaneous purchase and sale of the same futures contract, but different contract months – for example, buying a September S&P 500® futures contract and selling a December S&P 500 futures contract. An options calendar spread is the simultaneous purchase and sale of options of the same strike, but different expiration dates.

Call
An option to buy a commodity, security or futures contract at a specified price any time between now and the expiration date of the option contract.

Car
A loosely used term to describe contract quantities. Originally, one contract, or "car" was the quantity of a commodity that would fill a railroad car.

Cash price
Current market price of the actual physical commodity. Also called "spot price."

Cash settlement
Final disposition of open positions on the last trading day of a contract month. Occurs in markets where there is no actual delivery.

Central Bank
A government bank which regulates a country's banks and manages a nation's monetary policy. The Federal Reserve is the central bank in the United States, while the European Central Bank (ECB) is the central bank of the European Monetary Union.

CFTC
Acronym for the Commodity Futures Trading Commission as created by the Commodity Futures Trading Commission Act of 1974. This government agency currently regulates the nation's commodity futures industry.

Charting
The use of graphs and charts in the technical analysis of futures markets to plot trends of price movements, average movements of price, and volume and open interest.

Clearing
The procedure through which the Clearing House becomes buyer to each seller of a futures contract, and seller to each buyer, and assumes responsibility for protecting buyers and sellers from financial loss by assuring performance on each contract. This is effected through the clearing process, where transactions are matched.

Clearing fee
A fee charged by an exchange for each futures or options contract cleared or delivered on the exchange. Fees may be waived or reduced for some commodities as specified by the Board of Directors from time to time. Please call the CME Clearing House for a current listing of CME clearing fee rates.

Clearing House
The division of the Exchange through which all trades made must be confirmed, matched and settled on a daily basis until offset or delivered. An adjunct to CME responsible for settling trading accounts, clearing trades, collecting and maintaining performance bond funds, regulating delivery and reporting trading data.

Clearing member
A firm qualified to clear trades through the Clearing House. All clearing members not specifically designated as Class B members are considered Class A clearing members. There are three categories of clearing members: 1) CME clearing members, qualified to clear transactions for all commodities; 2) IMM clearing members, qualified to clear trades for only IMM and IOM commodities; and 3) IMM Class B clearing members, solely limited to conducting proprietary arbitrage in foreign currencies between a single Exchange-approved bank and the IMM and who must be guaranteed by one or more Class A non-bank CME or IMM clearing member(s).

Clearing trade transaction
Each matched trade between a buyer and a seller generates two clearing trade transactions: one for the buyer and one for the seller.

Close, the
The period at the end of the trading session officially designated by the Exchange during which all transactions are considered "made at the close."

Commission
The one-time fee charged by a broker to execute a futures transaction. Commissions on options are usually half on initiation and half on liquidation.

Commitment
When a trader or institution assumes the obligation to accept or make delivery on a futures contract.

Commodity exchange
A futures exchange that lists designated futures contracts for the trading of various types of derivative products and allows use of its facilities by traders. Must comply with rules set forth by the Commodity Futures Trading Commission.

Contract
In regard to futures, an agreement to buy or sell a specified amount of a particular commodity as specified by a futures Exchange. The contract specifications detail the amount and grade of the product and the date on which the contract will mature and become deliverable if it is not liquidated earlier. Also, a term of reference describing a unit of trade for a commodity futures contract, as in "five Japanese yen futures contracts." Unit of trading for a financial or commodity future. Also, actual bilateral agreement between the parties (buyer and seller) of a futures or options on futures transaction as defined by an exchange.

Contract month
The month in which futures contracts may be satisfied by making or accepting delivery. Also called the delivery month.

Country risk
Risk associated with a forex (foreign exchange) transaction, referring to potential political or economic instability.

Cross rate
The exchange rate between two currencies, in which the home country's currency is not included. In the U.S. the euro/yen rate would be considered a cross rate, while in Europe or Japan it would be considered a primary pair.

Currency risk
The potential for a shift in exchange rates, which would be detrimental to your position.

D

Day order
An order which is good for that day’s trading session only. If unexecuted at the close of the market, the order is eliminated.

Day trader
A trader who establishes and liquidates positions within one day’s trading, ending the day with no established position in the market.

Dealer
A firm or individual who puts up capital and takes one side of a position, seeking to earn a spread (profit) through closing out the position in another trade with a different party.

Deferred
See “back months.”

Deficit
A situation in which a country has a negative balance of trade or payments.

Delivery
The transfer of a commodity from a seller of a futures contract to a buyer of a futures contract. Some futures contracts are also cash settled.

Demand
The quantity of a commodity that buyers are willing to purchase from the market at a given price.

Depreciation
When a currency loses value, it is depreciating.

Derivative
An investment tool that is derived from an underlying instrument. An example would be a forex currency future, which trades at CME.

Devaluation (of currency)
A government’s reduction of the value of its currency, generally through an official announcement.

Downtrend
A price trend characterized by a series of lower highs and lower lows.

E

Electronic trading
Trading via computer through an automated order entry and matching system. CME’s GLOBEX® platform is an example of an international electronic trading system.

Expiration date
The last day that an option may be exercised into the underlying futures contract. Also, the last day of trading for a futures contract.

European Central Bank (ECB)
The European Monetary Union's central bank, which governs monetary policy for member countries.

European style options
An option that may only be exercised on its expiration date.

Exchange-for-Physical (EFP)
A transaction, primarily utilized by institutional users, in which one party buys cash market currencies and sells futures contracts, while the opposing party sells the cash currency and buys the FX futures contract.

F

Fast market
Term used to define unusually hectic market conditions.

Federal Reserve (Fed)
The central bank of the United States which governs monetary policy and derives its authority from the U.S Congress. The Federal Reserve Chairman is currently Alan Greenspan.

Fill-and-kill order (FAK)
At order entry, the order is executed to the extent possible, the remainder (if any) is cancelled.

Fill-or-kill order (FOK)
A limit order that must be filled immediately or canceled.

Flat
Market slang to indicate when a position has been evened up or closed out.

Floor broker
An exchange member who is paid a fee for executing orders for clearing members or their customers. A floor broker executing orders must be licensed by the Commodity Futures Trading Commission.

Forward contract
A private agreement between buyer and seller for the future delivery of a commodity at an agreed price.

Fundamental analysis
The study of supply and demand information to help project futures prices.

Futures
A term used to designate all contracts covering the purchase and sale of financial instruments or physical commodities for future delivery on a commodity futures exchange.

Futures Commission Merchant (FCM)
An individual, association, partnership, corporation or trust that solicit or accept orders for the execution of a commodity transaction on and pursuant to the rules of a futures contract market and which accept payment from or extend credit to customers.

Futures contract
A standardized agreement, traded on a futures exchange, to buy or sell a commodity at a specified price at a date in the future. Specifies the commodity, quality, quantity, delivery date and delivery point or cash settlement.

G

GLOBEX®
CME's electronic trading platform.

Good-til-canceled (GTC) order
Also known as open order. An order that remains good until filled, or the contract expires.

Good-til-date (GTD)
Good-til-date order. Order good until the date specified by the trader. If not filled at the end of the specified date/session, will be eliminated.

H

Hedge
The purchase or sale of a futures contract as a temporary substitute for a cash market transaction to be made at a later date. Usually involves opposite positions in the cash market and futures market at the same time.

Holder
One who purchases an option.

House
Clearing member or a firm.

I

Inflation
An economic term describing conditions where overall prices for goods and services are rising.

In-the-money
A call option with a strike price less than the underlying futures price. A put option with a strike price greater than the underlying futures price. A call option with a strike price lower (or a put option with a strike price higher) than the current market value of the underlying commodity for delivery at expiration time.

Initial margin
The minimum performance bond deposit required from customers for each contract in accordance with the rules of the Exchange.

Interbank rates
The price that major banks quote each other for currency transactions.

Introducing Broker (IB)
A firm or person engaged in soliciting or accepting and handling orders for the purchase or sale of futures contracts, subject to the rules of a futures exchange, but not in accepting any money or securities to margin any resulting trades or contracts. The IB is associated with a correspondent futures commission merchant and must be licensed by the CFTC.

Independent Software Vendor (ISV)
A vendor who makes and sells software products that run on one or more computer hardware or operating system platforms. At CME, ISVs provide front-end applications certified by CME for trading on the GLOBEX platform.

L

Last trading day
Day on which trading ceases for the maturing (current) delivery month.

Lead month
The most current contract month in which delivery may take place. The contract month closest to the current point in time.

Leverage
The use of a small amount of assets to control a greater amount of assets.

Limit
The maximum price advance or decline from the previous day’s settlement price permitted in one trading session, as determined by the Exchange.

Limit order
Usually equivalent to “price.” An order in which the customer sets a limit on price or

other condition, as contrasted with the trading floor definition of a market order, which implies that the order should be filled as soon as possible.

Liquidation
Any transaction that offsets or closes out a long or short futures or options on futures position.

Liquidity
A condition which describes the depth of market orders. A liquid market is able to accept large orders to buy or sell a currency, with little change to the current price.

Locals
Exchange members who trade for their own account and/or fill orders for customers and whose activities provide market liquidity.

London Interbank Offered Rate (LIBOR)
The rate charged by international banks for loans involving eurodollars.

Long
One who has bought a futures or options on futures contract to establish a market position and who has not yet closed out this position through an offsetting procedure. The opposite of short. 1) One who has bought a futures or options contract to establish a market position; 2) a market position which obligates the holder to take delivery; 3) One who owns an inventory of commodities.

Lot
The term used to describe a designated number of contracts, e.g., a five-lot purchase. Also called "cars."

<u>M</u>

Margin
The amount of money or collateral deposited by a customer with his or her broker, by a broker with a clearing member or by a clearing member with the Clearing House, for the purpose of insuring the broker or Clearing House against loss on open futures or options contracts. The margin is not a part payment on a purchase. (See: "**Performance bond")**

- Initial margin is the total amount of margin per contract required by the broker when a futures position is opened;
- Maintenance margin is a sum which must be maintained on a deposit at all times. If a customer's equity in any futures position drops to or under the maintenance level because of adverse price action, the broker must issue a margin call to restore the customer's equity. Consult the CME Clearing House for margin requirements for specific contracts

Mark-to-market
At the end of each trading session every contract is debited or credited based on that trading session's gains or losses. As prices move for or against a position, funds flow into and out of the trading account.

Market order (MKT)
An order filled immediately at the best price available.

Market value
The current value of all commodities held in a margin account.

Market-if-touched (MIT)
An MIT order to buy becomes a limit order if and when the instrument trades at a specific or lower trigger price; an MIT order to sell becomes a limit order if and when the instrument trades at a specified or higher trigger price.

Market-on-close (MOC)
An order submitted at any time within a trading session, but only executable at closing, at the closing price.

Maturity
The date at which a futures contract of some other financial instrument expires or settles.

Member
Member or broker / trader registered with the Exchange.

Minimum price fluctuation
The smallest increment of price movement possible in trading a given contract, often referred to as a tick. The minimum unit by which the price of a commodity can fluctuate, as established by the Exchange.

N

National Futures Association (NFA)
A self-regulatory organization for the commodity futures industry comprised of firms and individuals that conduct business with the public. Overseen by the Commodity Futures Trading Commission (CFTC).

Nearby
The nearest active trading month of a futures or options on futures contract. Also referred to as the lead month.

Notional value
The underlying value (face value), normally expressed in U.S. dollars, of the financial instrument or commodity specified in a futures or options contract.

O

Offer (or Ask, or sell)
A willingness to sell at a given price; the opposite of bid.

Offset
Taking a second futures or options on futures position opposite to the initial or opening position. Selling if one has bought, or buying is one has sold.

Open interest
Total number of futures or options on futures contracts that have not yet been offset or fulfilled for delivery.

Open order
An order that remains good until filled, cancelled or eliminated.

Open outcry
The method of verbally trading in an auction-like atmosphere so that each trader has a fair chance to buy or sell.

Opening
The beginning of the trading session.

Over-the-Counter (OTC) trades
In reference to foreign exchange, forward currency transactions not listed or traded on a futures exchange.

Out-of-the-money
An option with no intrinsic value. A call option with a strike price greater than the underlying futures price. A put option with a strike price less than the underlying futures price.

P

Performance bond
Funds that must be deposited by a customer with his or her broker, by a broker with a clearing member or by a clearing member with the Clearing House. The performance bond helps to ensure the financial integrity of brokers, clearing members and the Exchange as a whole. Also referred to as “margin” (not the preferred term).

Performance bond call
A demand for additional funds to bring the customer’s account back up to the initial performance bond level whenever adverse price movement has caused the account to go below the maintenance. Previously referred to as a margin call.

Position
An interest in the market, either long or short, in the form of open contracts.

Position trader
A trader who takes a position in the market and might hold that position over a long period of time.

Price order
An order to sell or buy at a certain price or better.

Price transparency
Equal access by all potential traders to current bid and ask prices in a marketplace. CME FX futures are traded in a marketplace where there is price transparency.

Q

Quote
An indication of current bids and offers in the market on a particular instrument or spread.

R

Range
The high and low prices or high and low bids and offers recorded during a specified time.

Resistance line
A price level above which prices tend not to rise due to selling pressure.

Retracement
A price move in the opposite direction of a recent trend.

Risk
Possibility of suffering loss.

Round turn
Refers to the purchase or sale of a futures contract and the subsequent sale or purchase, which closes out the position.

S

Scalp
To trade for small gains. Scalping normally involves establishing and liquidating a position quickly, usually within the same day, hour or even just a few minutes.

Settlement price
A figure determined by the closing range that is used to calculate gains and losses in futures market accounts, performance bond calls and invoice prices for deliveries. The official daily closing prices of a futures contract.

Short
One who has sold a futures contract to establish a market position and who has not yet closed out this position through an offsetting procedure. The opposite of long.

Side
A side counts the buy and the sell as separate events. Each matched trades, and each contract, has two sides — the buyer side and the seller side. Taken together, these two sides equal one round turn per unit of volume. Measuring matched trade volume "per side" counts volume on each side of the trade.

Speculator
One who attempts to anticipate price changes and, through buying and selling futures contracts, aims to make profits. Does not use the futures market in connection with the production, processing, marketing, or handling of a product. The speculator has no interest in taking delivery.

Spot month
The nearest trading month which may or may not be the current calendar month. Usually used as the current delivery month for a commodity.

Spot price
The actual current price for a currency, where it can be bought or sold in the over-the-counter market. Spot currency transactions usually settle within two business days of the trade.

Spread
The price difference between two contracts. Holding a long and a short position in two related futures or options on futures contracts, with the objective of profiting from a changing price relationship.

Stop limit order
An order that becomes a limit order only when the market trades at a specified price.

Stop order
An order which specifies a price at which the order is activated and becomes a limit order. A buy stop is entered above the current market and becomes a limit order when the commodity trades at or above the specified stop trigger price. A sell stop is entered below the current market. It becomes a limit order when the commodity trades at the stop price or below. The stop can immediately execute up to the limit price.

Stop with a price limit
A stop order with a specified worst price at which the order can be filled.

Supply
The quantity of a commodity that producers are willing to provide to the market at a given price.

<u>T</u>

Technical analysis
The study of historical price patterns to help forecast futures prices.

Tick
The smallest allowable increment of price movement allowed for a product during a trading session. Ticks are established by the Exchange. See "minimum price fluctuation."

Trend
The general direction of the market.

<u>U</u>

Uptrend
A price trend characterized by a series of higher highs and higher lows.

<u>V</u>

Volatility
An annualized measure of the fluctuation in the price of a futures contract. Historical volatility is the actual measure of futures price movement from the past. Implied volatility is a measure of what the market implies it is, as reflected in the option's price.

Volume
The number of contracts in futures or options on futures made during a specified period of time. At CME, it refers to "aggregated quantity" (e.g. total traded volume of the day).

<u>W</u>

Writer
An individual who sells an option.

<u>Y</u>

Yard
Market slang for a billion.