

Common markets in the CTA and managed futures industry

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Abstract

During the summer 2014, we conducted a survey to establish “*The Common Denominators in the CTA and Managed Futures Industry*”. The survey was sent to over 3,500 financial industry practitioners globally and we received 51 (1.5%) responses. The survey was conducted from 17th June 2014 until 11th July 2014 by the Nanyang Technological University in Singapore and supported by J8 Capital Management LLP in London.

This article is the first in a series of three articles. It presents the results on ‘what are the most popular markets traded in the CTA industry’? The second article will present the survey results on the most popular returns engines, portfolio management methods and fee structures. The final article will present an investible index based on these survey findings which may serve as a new benchmark index for the industry.

The full survey report will be published in the Journal of Index Investing with the Institutional Investor Journals.

Traded Markets

There is clear trend in popularity of traded markets within the CTA industry. All survey participants were asked for their opinions on which markets represent the most relevant or common markets traded by CTAs, and multiple selections were possible. The survey covered a total of 82 markets, of which 27 markets were commodity markets, 10 government bond markets, 6 interest rate markets, 12 equity index markets, 1 volatility market, 9 G10 currency markets, and 17 emerging market (EM) currency markets.

Exhibit 1 shows that commodity markets are the most popular markets. This is followed by equity markets, bonds markets, G10 currency markets and EM currency markets. Short-term interest rate markets and volatility are the least popular traded markets.

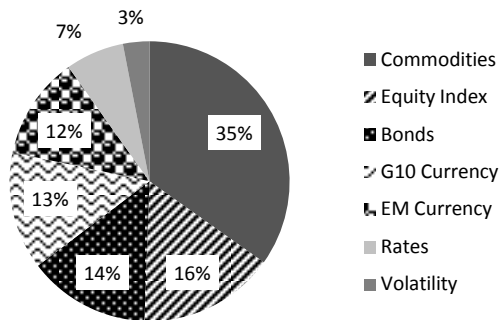


Exhibit 1: Share of market ticks (total of 1212 ticks)

COMMODITY MARKETS

The survey sub-categorised commodity markets into six sectors: grains, softs, livestock, energy, industrial metals and precious metals.

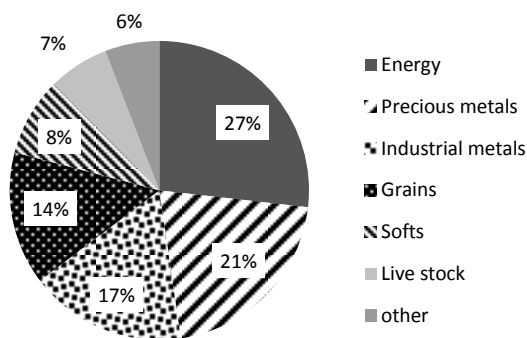


Exhibit 2: The relative size of commodity sectors traded by the CTA industry

Exhibit 2 shows the number of ticks for each sector were spread fairly equally, with energy (27%) and precious metals (21%) being the two most popular sectors.

Some sectors show a clear market favourite:

- Copper was the most popular industrial metal (58%).

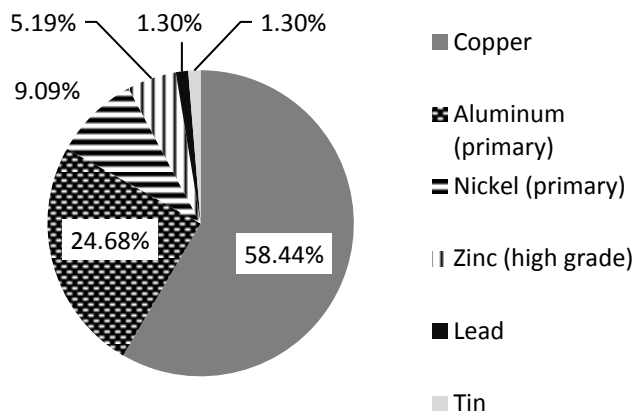


Exhibit 3: The relative size of industrial metals traded by the CTA industry

- Gold got 58% of the precious metals ticks(Exhibit 4).

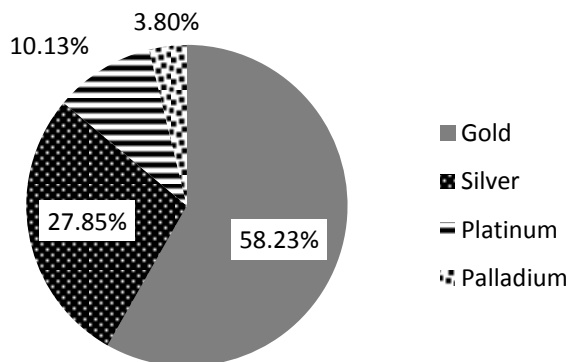


Exhibit 4: The relative size of precious metals traded by the CTA industry

- WTI and Brent Crude Oil combined to 63% of the ticks of the energy sector(Exhibit 5).

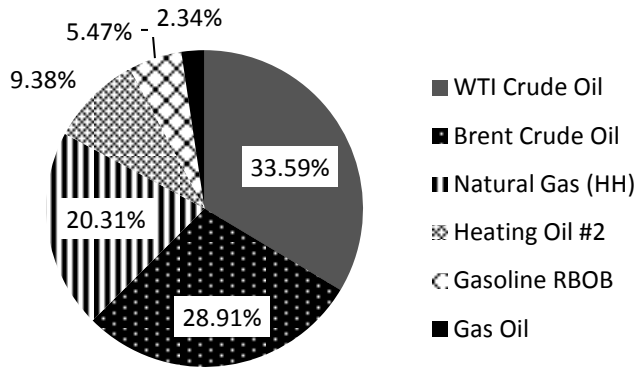


Exhibit 5: The relative size of energy traded by the CTA industry

- Within the grains, softs, and live stock sectors, there was no distinct winner(Exhibit 6, 7 and 8 respectively).

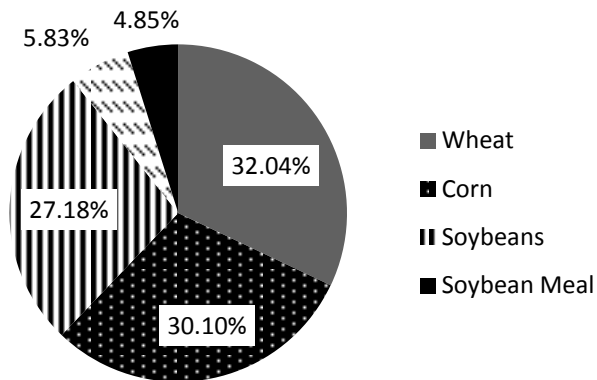


Exhibit 6: The relative size of grains traded by the CTA industry

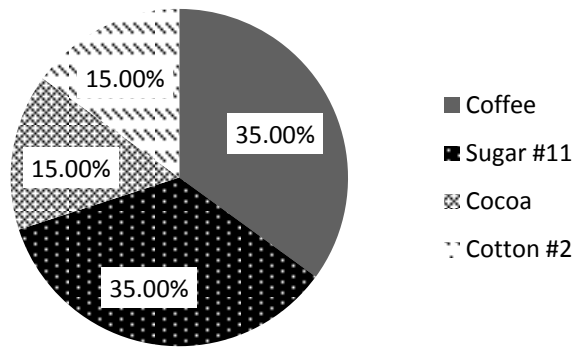


Exhibit 7: The relative size of softs traded by the CTA industry

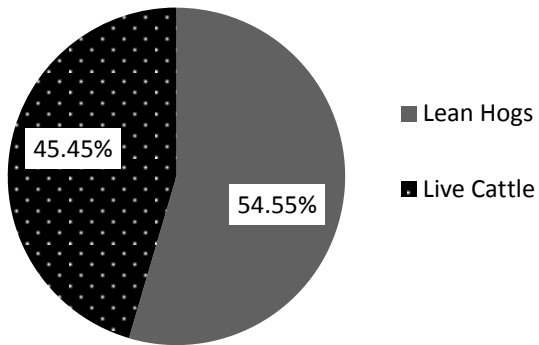


Exhibit 8: The relative size of livestock traded by the CTA industry

EQUITY INDICES

The second most popular markets were equity indices with S&P 500 taking the lead with 23% of the share (Exhibit 9).

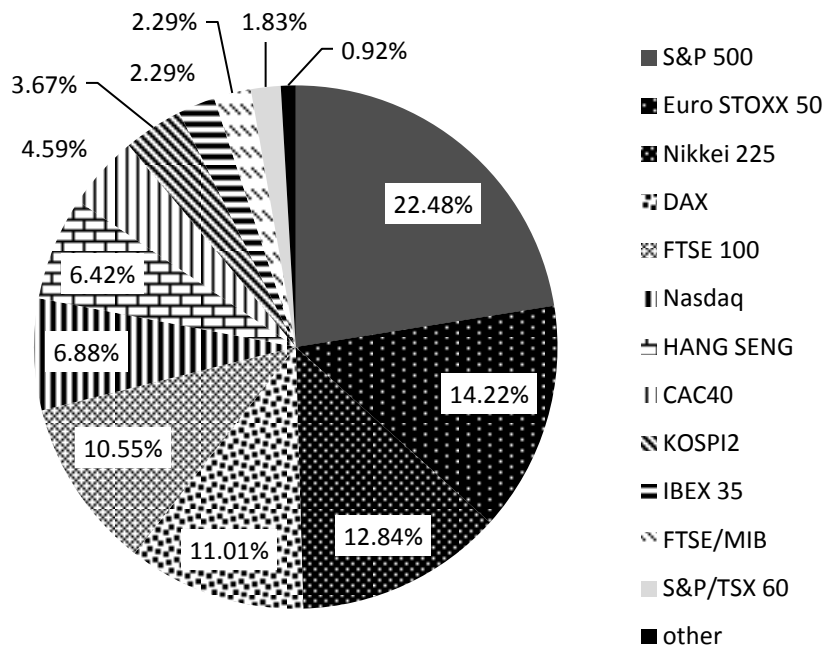


Exhibit 9: The relative size of equity indices sector traded by the CTA industry

GOVERNMENT BOND MARKETS

14% of all markets selected were government bond futures, making it the 3rd most popular category (Exhibit 1). Within government bonds, 10yr US Treasury Notes (20%) and 10yr Euro Bunds (16%) were the most popular markets. The other government bond markets show similarly popularity among each other (Exhibit 10).

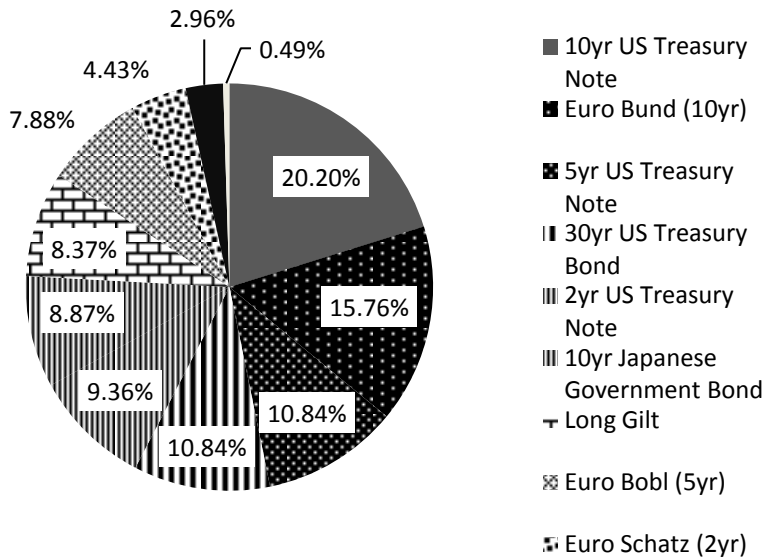


Exhibit 10: The relative size of government bonds sectors traded by the CTA industry

G10 CURRENCY MARKETS

Within the G10 currencies, Euro and the Japanese Yen were the favourite markets (Exhibit 11).

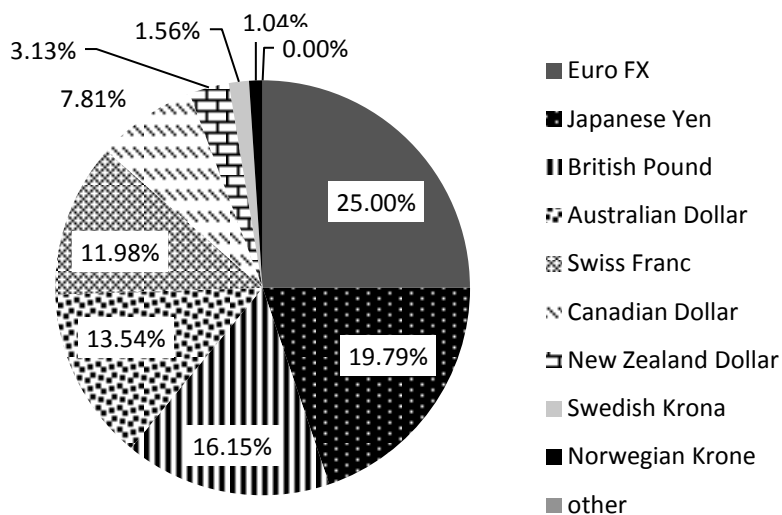


Exhibit 11: The relative size of G10 currencies sector traded by the CTA industry

EM CURRENCY MARKETS

Emerging market currencies are slightly less popular in the CTA industry than G10 currencies, with a total of 11% of all ticks received. The most popular EM currency was the Brazilian Real.

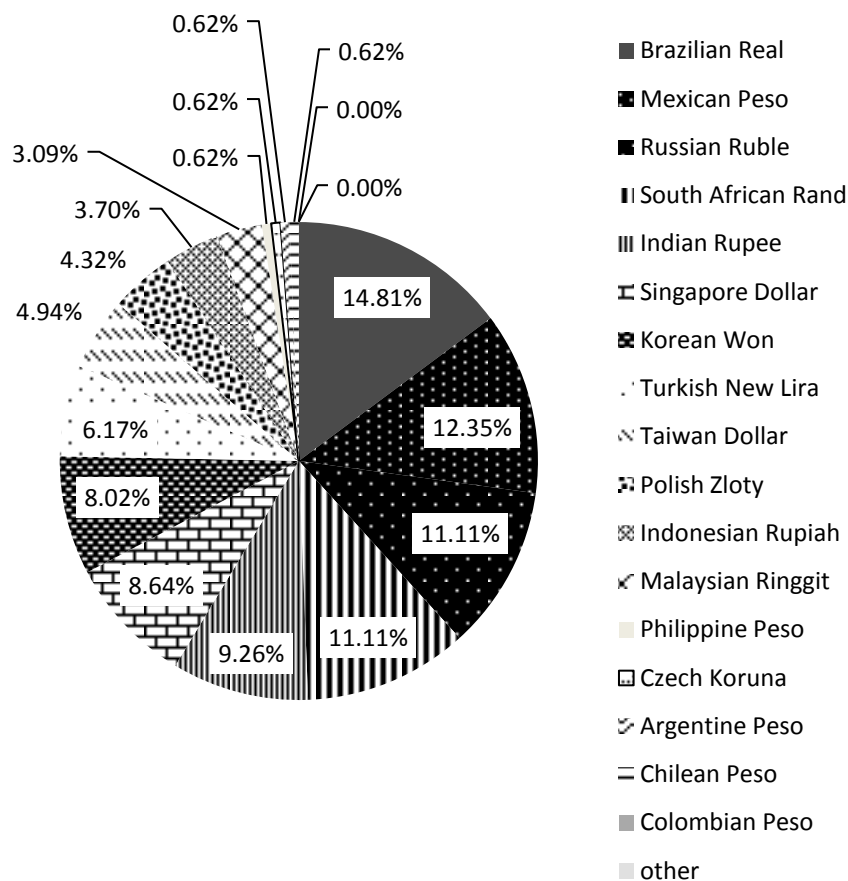


Exhibit 12: The relative size of EM currencies traded by the CTA industry

INTEREST RATE MARKETS

The Eurodollar dominates the interest rate markets (45%), however, Exhibit 1 shows that rates in total were the 2nd least popular category, with only 7% of the total ticks being allocated to rates.

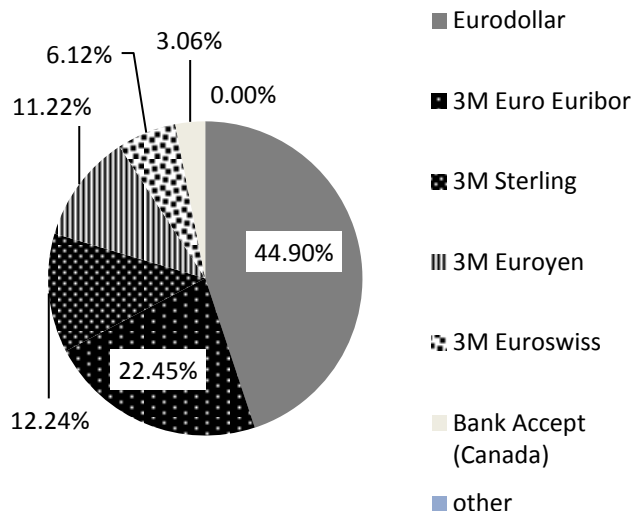


Exhibit 13: The relative size of interest rates sectors traded by the CTA industry

VOLATILITY MARKETS

There was only one volatility market listed on the survey, the CBOE VIX. However, it was voted the 8th most popular individual market out of all listed markets. Three respondents suggested VDAX and Eurex VSTOXX as relevant volatility markets.

Markets ranked by popularity

Following tables show all 82 markets included in the survey, ranked by their popularity as measured by the numbers of ticks received.

Number of Ticks	Market	Number of Ticks	Market
49	S&P 500	15	Indian Rupee
48	Euro FX	14	HANG SENG
46	Gold	14	Singapore Dollar
45	Copper	13	Korean Won
44	Eurodollar	12	Cocoa
43	WTI Crude Oil	12	Cotton #2
41	10yr US Treasury Note	12	Heating Oil #2

40	CBOE VIX	12	3M Sterling
38	Japanese Yen	11	3M Euroyen
37	Brent Crude Oil	10	CAC40
33	Wheat	10	Turkish New Lira
32	Euro Bund (10yr)	9	Euro Schatz (2yr)
31	Corn	8	Platinum
31	Euro STOXX 50	8	KOSPI2
31	British Pound	8	Taiwan Dollar
28	Soybeans	7	Gasoline RBOB
28	Coffee	7	Nickel (primary)
28	Sugar #11	7	Polish Zloty
28	Nikkei 225	6	Soybean Oil
26	Natural Gas (HH)	6	Canadian 10yr Bond
26	Australian Dollar	6	3M Euroswiss
24	Lean Hogs	6	New Zealand Dollar
24	DAX	6	Indonesian Rupiah
24	Brazilian Real	5	Soybean Meal
23	FTSE 100	5	IBEX 35
23	Swiss Franc	5	FTSE/MIB
22	Silver	5	Malaysian Ringgit
22	5yr US Treasury Note	4	Zinc (high grade)
22	30yr US Treasury Bond	4	S&P/TSX 60
22	3M Euro Euribor	3	Gas Oil
20	Live Cattle	3	Palladium
20	Mexican Peso	3	Bank Accept (Canada)
19	Aluminum (primary)	3	Swedish Krona
19	2yr US Treasury Note	2	Norwegian Krone
18	10yr Japanese Government Bond	1	Lead
18	Russian Ruble	1	Tin
18	South African Rand	1	Philippine Peso
17	Long Gilt	1	Czech Koruna
16	Euro Bobl (5yr)	1	Argentine Peso
15	Nasdaq	1	Chilean Peso
15	Canadian Dollar	0	Columbian Peso

Exhibit 14: Ranking of all 82 surveyed single markets by their popularity

CONCLUSION

Markets have been ranked based on popularity within the CTA and managed futures industry. The commodity markets emerged as the most relevant and traded market in the CTA industry, closely followed by equity indices, government bonds, and G10 currencies. However, the mix of asset classes of the most popular single markets suggests that the CTA and managed futures industry trades diversified asset portfolios.