Assessing the impact of Brexit and new US administration

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CME Group offers the widest range of benchmark futures and options products, covering all major asset classes – and all kinds of risk.

“In the wake of the recent financial crisis, over-the-counter (OTC) derivatives have been blamed for increasing systemic risk…the complexity and limited transparency of the market reinforced the potential for excessive risk-taking…”

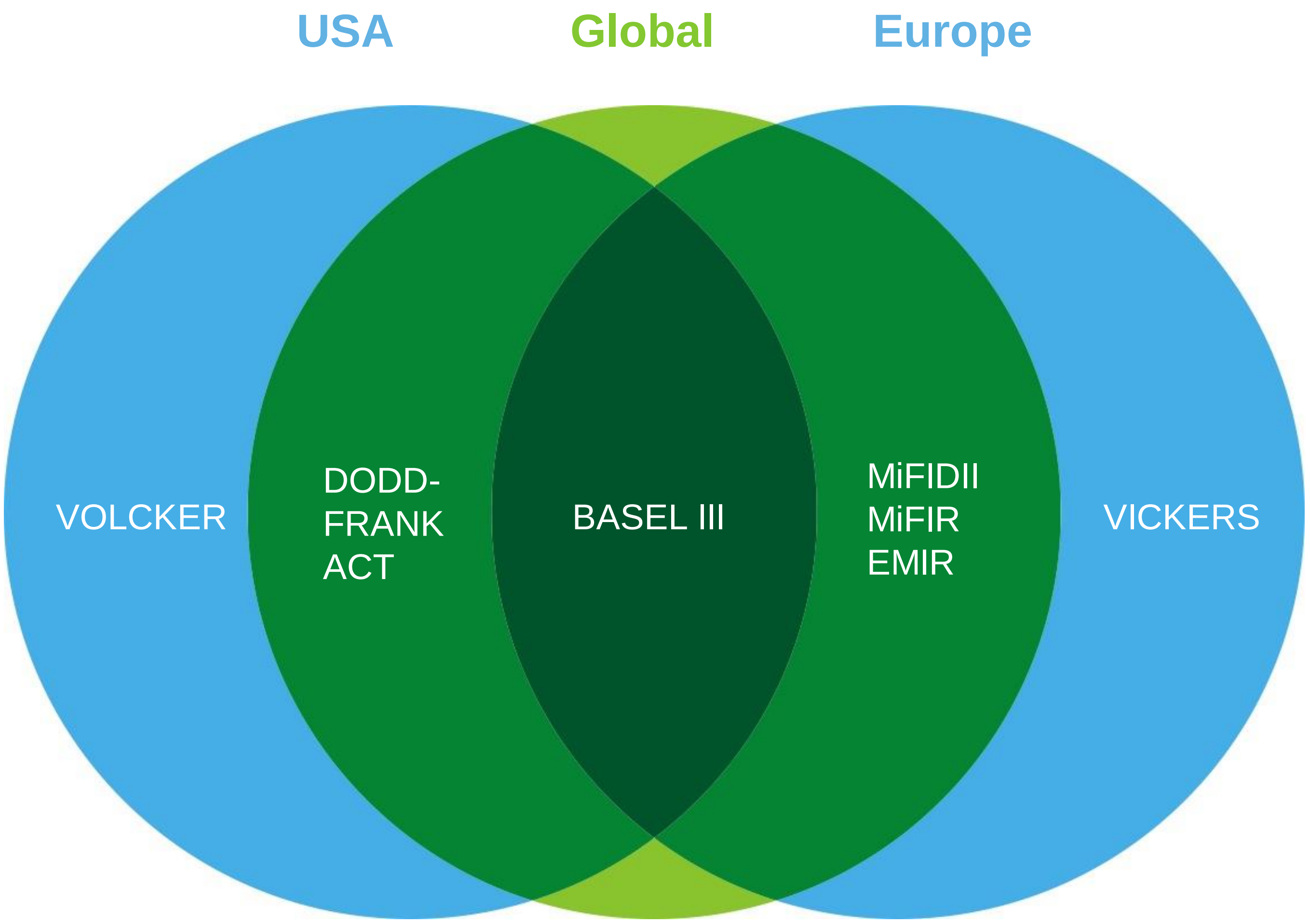
Federal Reserve Bank of New York
Staff Report #424
January 2010, revised March 2010

“What followed was the 2008 financial crisis. Eight million American jobs were lost. In contrast, the futures market, supported by earlier reforms, weathered the financial crisis.”

Gary Gensler,
CFTC Chairman
January 31, 2013

Wall Street reform and Consumer Protection Act

Regulatory convergence



New conditions have redefined the marketplace.

Exchange Trade Derivatives

Central Clearing Counterparty

Mark-to-Market, Margining

Bilaterally Negotiated

Over-the-Counter Traded

Regulatory changes:

- **G20**
- **Basel III**
- **Dodd-Frank Act**

Populism sweeps the U.S. and Europe

Since 8 November:

- Equity markets have rallied considerably and financial stocks have outperformed
- Interest rates have risen across the yield curve
- The U.S. dollar has strengthened somewhat
- Industrials metals prices have rallied but gold has sold off

Donald Trump proposes a fiscally expansionary policy that involves tax cuts, increased spending on infrastructure and the military. These policies, if implemented, will likely have the following consequences:

- Bigger budget deficits, more U.S. Treasury bond issuance
- Stronger short-term economic growth that takes the burden off the Federal Reserve to stimulate the economy through low rates; hence, a faster pace of Fed rate hikes and more interest rate volatility
- A much stronger U.S. dollar and more foreign direct investment in the U.S. This could be especially true with a border adjustment tax
- But which policies, if any, will actually be enacted into law?

Brexit: not the time for further reforms

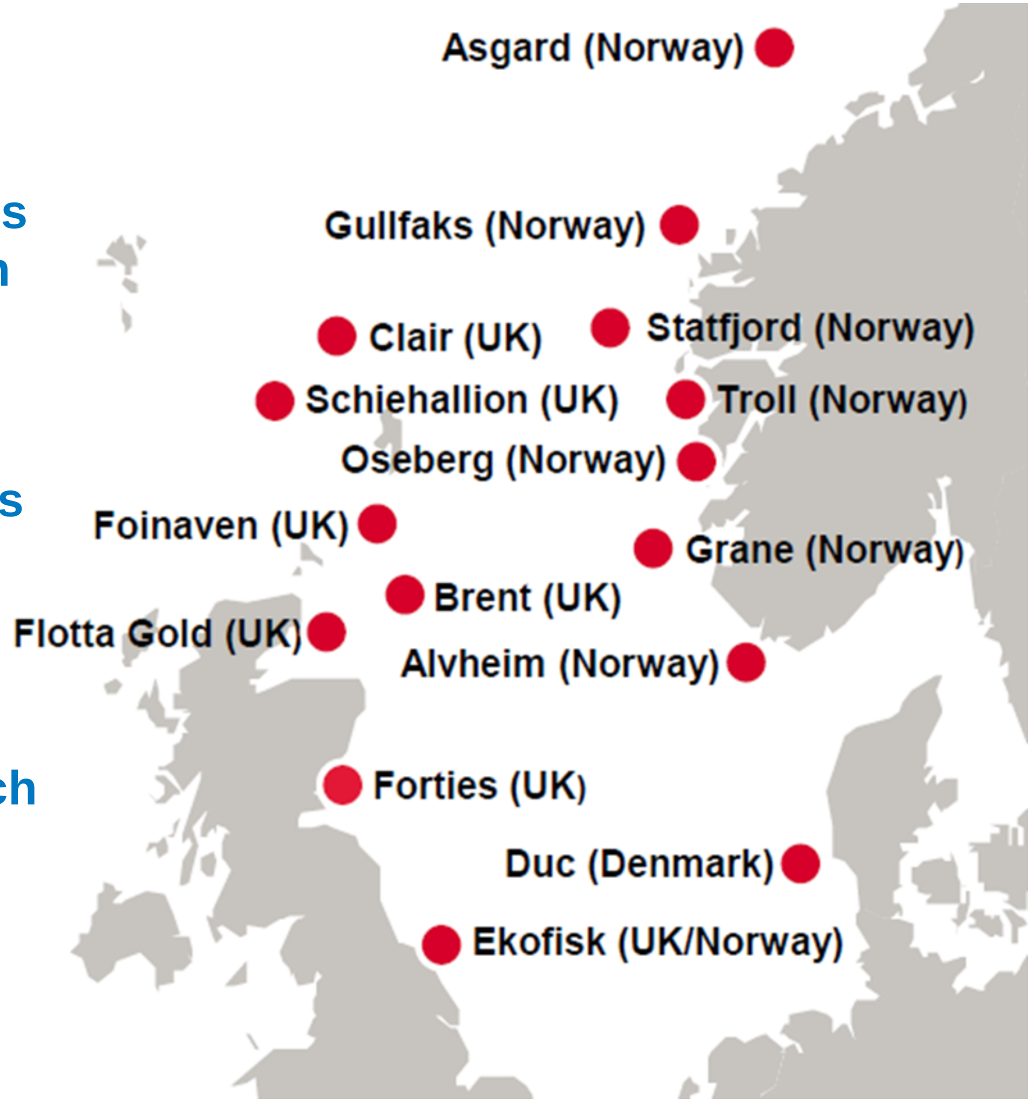
Prime Minister Theresa May plans to invoke Article 50 imminently.

The UK government appears to be fairly stable and will likely remain in power until May 2020. The same cannot be said of the European negotiating partners:

- Dutch elections today will likely lead to lengthy coalition negotiations
- France will hold Presidential elections in April and May
- Germany will likely hold elections in September 2017, which could also result in a new Chancellor and a much more fractured Bundestag, with significant representation for the nationalist Alliance fur Deutschland
- In Italy, the two biggest parliamentary parties have demanded an election by summer 2017
- Spain is still unable to form a government despite having had two elections during the past year

Brexit has implications for North Sea crude oil

- The 2011 EU-South Korea free trade agreement waives a 3 per cent tax that Korean refiners have to pay to import oil
- The waiver offsets the costs of shipping the from the North Sea to Korea
- Uncertainty surrounds treatment of UK grades such as Forties once UK is not covered by EU agreements



Regulatory changes

- We support robust, fair regulation in the global financial markets as it is fundamental to the confidence of market participants
- Also fundamental is that it not cross the line and undermine innovation, competition and economic growth
- The new U.S. administration has been in place for just two months so it’s still early to predict what the full impact will be on financial markets
- Our U.S. exchanges and clearinghouse are licensed under the existing EU regulatory framework and we expect them to continue to be able to access the EU market without any negative impact
- Any time there is regulatory uncertainty, investors turn to our markets to manage risk, since they can react quickly to unanticipated policy changes, especially as unprecedented political changes continue to unfold

Thank you.