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Original:

<https://www.btcc.com/en-US/academy/research-analysis/what-is-cme-group-ethereum-futures>

### What is CME Group Ethereum Futures?

On Feb. 8, Ethereum futures went live on the Chicago Mercantile Exchange (CME) - the world's largest derivatives exchange - 53 days after the first official plans were announced.

Investors can now attempt to profit from the future price movements of Ethereum's crypto token, ether ([ETH](#)), on the CME.

So what does this mean exactly? What's the pros and cons of Ethereum futures trading? And how do you trade them? Here we'll dive into these questions.

### What is crypto futures trading?

A futures contract is where the buyer agrees to purchase - and the seller agrees to sell - the underlying asset at a fixed price at a future date. In the case of the ether futures, that underlying asset is the Ethereum cryptocurrency.

But rather than having the seller deliver ether to the buyer on the settlement date, ether futures contracts are settled for cash; if the settlement price of ether ends up being higher than the contract price, the seller agrees to pay just the dollar difference between the contract price and the settlement price. Likewise, if the settlement price is lower than the contract price, the buyer pays the seller the difference.

So what price do they use? The contract tracks the price of ether using the CME CF Ether-Dollar Reference Rate (ETHUSD\_RR). The system collects price data on ether trades from major crypto exchanges including Kraken, Coinbase, Bitstamp, itBit and Gemini, and works out a volume-weighted average price (VWAP) for ether each day.

Each contract is worth 50 ether and priced in U.S. dollars. There is a maximum order size of 100 contracts on CME Globex, the exchange's electronic trading platform that runs continuously to accommodate traders from all time zones. Whatever the price of ether is at the point of expiry (when the contract is scheduled to be settled) both the buyer and seller have to uphold their promises to buy and sell the contract, respectively.

### **Example:**

At the start of March, Bob is bullish on ether and thinks the price will rise over the next four weeks. Barbara, however, is bearish on ether and believes the price will drop by the end of April. Bob and Barbara both enter into an ether futures trade on the CME.

Bob agrees to buy 1 ether futures contract with an April expiry (Apr. 30). Ether's current price is \$1,800 so the notional value of the contract equals \$90,000 (50 x 1,800). Barbara agrees to sell 1 contract worth of ether on Apr. 30.

Bob is hoping by the end of April, ether's price will have risen so when the contract reaches settlement he will profit from the difference between the initial contract price and the settlement price. Barbara is hoping ether's price will have fallen so that she can profit from the difference.

**Scenario A:** Upon expiry, ether's price is \$2,000 per coin which means the settlement price of the ether futures contract is \$100,000 (50 x 2,000). Barbara now has to pay Bob \$100,000 as part of the futures contract agreement, which leaves Bob with a \$10,000 profit.

**Scenario B:** Upon expiry, ether's price is \$1,600 per coin which means the settlement price of the ether futures contract is \$80,000 (50 x 1,600). As per the agreement, Bob has to pay Barbara \$90,000 for a contract that is now worth \$80,000, which means Barbara has made a \$10,000 profit.

## **Ethereum futures trading - pros and cons**

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### **Pros:**

- Stand to profit from the future movements of Ethereum's ether cryptocurrency.
- Gain exposure to the digital asset market without having to navigate unregulated crypto

exchanges and set up digital wallets.

- Ability to use leverage to increase capital efficiency.

### **Cons:**

- Not eligible for any Ethereum forked coins. Forked coins are produced from “hard forks” which is when a blockchain splits to create an entirely new chain. This occurs for a variety of reasons, including when a major change to the protocol needs to be implemented that is not backward compatible with the old chain, if someone wants to create a spin off of an existing open-source project like Bitcoin, or when there’s an internal disagreement between miners and/or developers and they decide to part ways. When a new blockchain is created, a new cryptocurrency is also created and distributed to all holders of the original blockchain tokens.
- No airdrops. Airdrops are where crypto projects distribute free tokens to people for completing certain tasks, being in certain associated communities, or to encourage adoption.
- High barrier to entry for regular investors. The minimum purchase amount is 1 contract which costs the USD equivalent of 50 ether – currently \$85,000 as of Feb.10, 2021.
- Potential to lose more than initially invested. Futures trading carries an “unlimited liability” risk where traders can lose significantly more than just the initial money they invested. In some extreme cases, traders have even gone bankrupt from trading futures contracts. This is because there is no limit on how high or low the price of the underlying asset can move. For example, Barbara enters into another ether futures trade with Bob for one contract with a notional value of \$90,000 and a May expiry. Over the course of May, the price of ether rises dramatically to \$4,000 per coin. Barbara now has to pay Bob a whopping \$200,000 to settle the contract (50 x 4,000).

## **What impact could CME Ethereum futures have on ETH price?**

The launch of ether futures gives institutional investors an opportunity to hedge against spot market positions – a market where assets and securities are traded with immediate delivery, like Coinbase – which makes the Ethereum native cryptocurrency a much more attractive investment. This has the potential to encourage more big money to enter the crypto market and help improve overall maturity.

There are, however, some instances where ether futures may have a detrimental impact on the

underlying price of ether. When futures markets close for the day or the weekend during periods of high market volatility, gaps can appear on futures charts. This is where the price closes at a certain point and then reopens for the new day or week at a completely different price point. For reasons unknown, these CME gaps have a tendency to get filled most of the time, where traders drive the asset back to its original price before the gap appeared. Whenever this happens, it also causes the underlying asset's price on the spot market to move in tandem as arbitrage traders profit from the difference between the different exchanges.

This means if gaps appear on the ether futures chart it may well have a direct impact on the actual price of ether and cause increased volatility.

## FAQs

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### **How easy is it to trade Ether futures on CME?**

In order to trade Ethereum futures on the CME exchange, you need to create an account with a registered futures broker. Once you are set up, you can place an order through your broker, tell them how many contracts you want to buy or sell, and choose an expiration month.

### **What are the transaction fees?**

Details of all transaction fees associated with Ethereum futures can be found on the CME Group website.

## **Buy Ethereum futures on BTCC**

Founded in 2011, [BTCC](#) is one of the world's longest-running exchanges with over 11 years of stable and secure operating history. [BTCC](#) offers trading service in US, UK, and many other countries. Apart from crypto futures, the platform also supports tokenized futures, allowing users to trade stocks and commodities futures with USDT.

- Simple user-friendly interface and intuitive trading platform.
- Supports a wide variety of popular trading tools and features.
- Allows users to buy and sell a range of digital assets with various trading pairs.
- Strict security measures to ensure the safety of user assets, with no reported hacks or security breaches to date.
- Offers a range of educational resources for users, including guides, tutorials, and market analysis.

Interested in trading ETH futures on BTCC exchange?

## **ETH Futures Contracts Listed On BTCC Exchange**

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