Crisil
Coalition
Greenwich

Drivers of derivatives markets growth in the year ahead

Q1 2025

82% of derivatives professionals assert that political instability and geopolitical conflict will drive global derivatives trading over the next two years

Senior derivatives leaders believe that macro trends will have the greatest influence on the derivatives market in the year ahead. The prevailing uncertainty in both politics and the economy is driving investors, intermediaries and other market participants to monitor these developments to understand the impacts on their businesses.

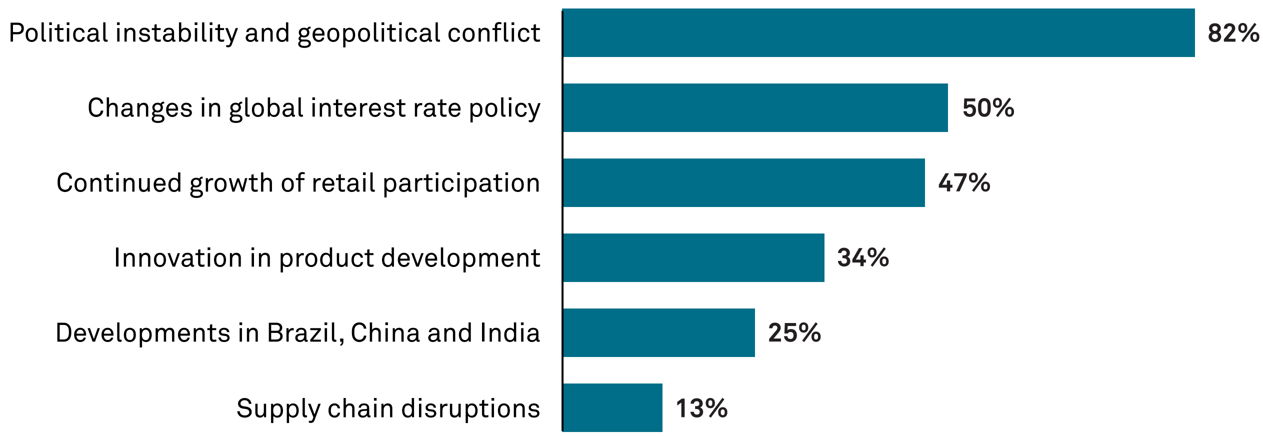
Although the extent of change is unknown, the lack of certainty actually reinforces the need to determine strategic responses, especially for hedging, risk management and alpha generation. While these strategies are being developed, the market structure will not remain static; the dynamics of these macro influences will be reflected in how derivatives market professionals think about and adapt to the changes that will unfold in 2025.

Higher volumes are coming

For an instrument that is often used to manage volatility and hedge risk, it is not surprising that market professionals view issues that can potentially increase volatility as potential drivers of growth. Data from our recent study shows that 82% believe political instability will drive derivatives volume growth, a fact that talks both to the uncertainty in the global environment and the vital role that derivatives play. Half of respondents also cite interest rate changes as a driver—this is more familiar terrain for the derivative professionals, who have long used these instruments to hedge interest rate risk.

What the top two drivers of derivatives growth—political instability and changing interest rates—have in common is disruption of the status quo.

Factors most likely to generate growth in global trading of derivatives over the next two years



Note: Based on 256 respondents.
Source: Coalition Greenwich/FIA 2025 Derivatives Market Structure Study

Once derivatives market participants reflect beyond the headlines, they begin to focus on other structural shifts to the market. Retail participation in the derivatives markets is increasing around the world due to improved access and new products. Retail participation takes multiple forms, including not only standard futures and options contracts, but also structured notes, 0DTE and event contracts. Access to these and other products is supported by easier trading tools offered by traditional retail brokerage platforms in both developed and emerging markets.

Product innovation is driving growth in institutional markets as well. These innovations come in different and distinct forms, depending on the participant:

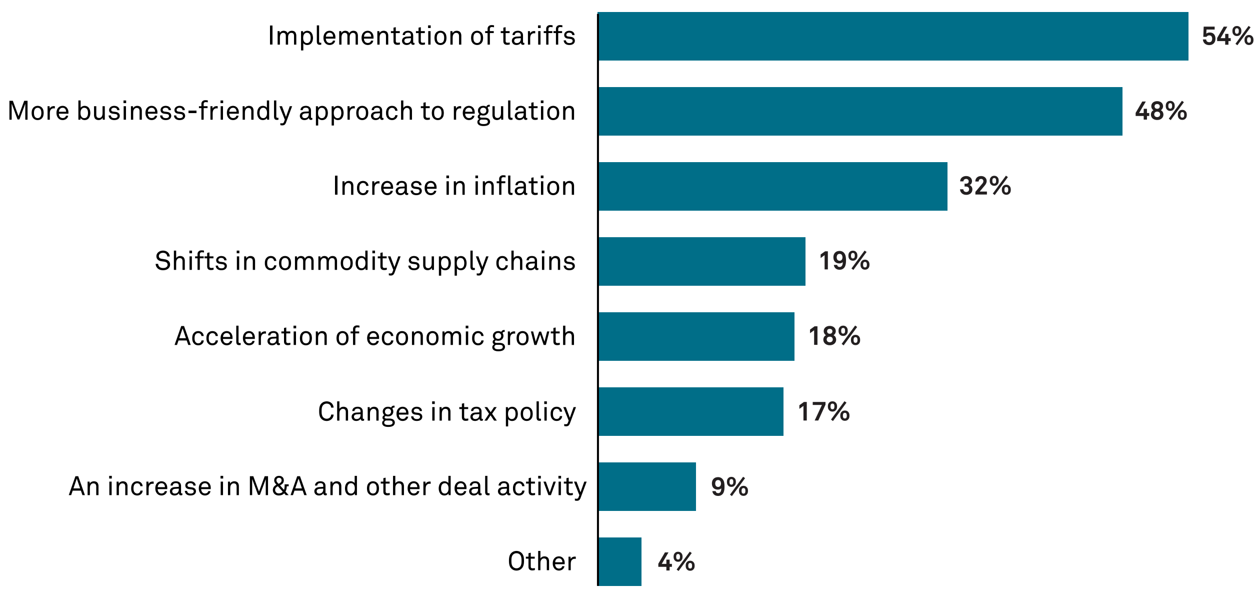
- **Derivatives products themselves**: Exchanges will continue to innovate on the products they list, whether more event contracts, digital asset contracts, hourly expirations, or other innovations. These products will certainly need to attract liquidity, but the exchanges recognize the demand for new ways to hedge increasingly volatile markets or to help generate alpha.
- **Cost of trading**: The ability of users to minimize the amount of margin they post helps keep the instruments cost-effective. This could involve products that aid cross margining, or increasing the transparency of margin models so users can better manage their collateral obligations.
- **Technology innovation**: Scale and risk mitigation is the desired end state of any operational process. Yet, there are fragmented systems making data transfer across multiple counterparties inefficient. Technology companies will innovate on their products to help users generate the scale to accommodate new volumes and instrument types without dramatically increasing operating costs.

Given that the most cited driver of growth is instability, there is an inherent unknown element to how that growth will present itself. Derivatives are used to hedge and profit in nearly every global market, and those markets most impacted by the world's unknown are likely to benefit the most.

Tariffs, commodities and deregulation

The new administration in the United States is seeking to make significant changes to the status quo. The changes are not intended to be incremental and subtle, rather, immediate and obvious. The impact of these expected changes will have varied impacts on the derivatives market, with some driving market activity and others touching the market structure of the industry itself.

Outcomes that will have the most significant effect on the U.S. derivatives market



Note: Based on 257 respondents.
Source: Coalition Greenwich/FIA 2025 Derivatives Market Structure Study

Tariffs have received a lot of attention from the media and economists due to the potential implications. Fifty-four percent of respondents overall feel that tariffs would have the most significant impact on the U.S. derivatives market. This holds true for both the buy side (60%) and the intermediaries (56%). European respondents feel more strongly about the impact of tariffs (63%) compared to their North American counterparts (57%). How the implications of tariffs cascade through capital markets may not be totally clear, but those implications require different hedging and trading strategies.

Investors expect changes to energy policy (“drill, baby, drill”) in the U.S. These changes and related tax incentives may shift capital back to fossil fuels, affecting everything from commodity supply chains, carbon markets and investments in alternative energy. The many geopolitical conflicts now raging, and potential new ones, could also alter commodity supply chains. Natural end users will have to be judicious on how they manage these shifts, and of course, the derivatives market will play a vital role in that.

The Trump administration signaled a more business-friendly approach to regulation which, taken in conjunction with the Chevron doctrine ruling, will directly impact the derivatives market. The Trump administration has proven itself more supportive of digital assets, and thus, the ecosystem of cryptocurrencies and derivatives on those currencies could face less opposition and grow more rapidly. The CFTC has also signaled a more supportive approach for event contracts and other potential growth areas than the previous administration.

Inflation concerns are always top of mind in the derivatives industry, and an increase in inflation (whatever the cause) and the resulting impact on interest rates remain a watch area for market participants. In addition, costly banking regulations ranging from U.S. Treasury clearing to Basel III could be delayed or diluted, potentially fueling bank activity. The industry has long cited capital regulations such as Basel III as a particular hindrance to growth, given the treatment of capital when trading derivatives. A reduction in Basel III capital requirements augurs well for the cost of trading derivatives.

Conclusion

The 2020s have come with their share of chaos, including a global pandemic, wars and rapidly shifting political sands. Through it all, markets have grown, technologies improved, and institutions and people have invested for the future. Yet, uncertainty is the key word to describe the factors influencing the derivatives market in 2025. Will tariffs be implemented? Will they be punitive? What will the impact be on the economy, supply chains, energy consumption, and interest rates?

These questions will not be answered immediately, but investors and intermediaries will look to the derivatives market to help manage through the consequences. Because market participants believe the market will continue to grow, other adaptations are needed to accommodate such growth. Automation, margin efficiency and risk management will all require investment as uncertainty continues to dominate the headlines.

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METHODOLOGY

This report is based on interviews conducted between January and February 2025 with 263 derivatives market participants and experts sourced from the Crisil Coalition Greenwich network and the FIA community. The research includes findings from 109 people working at clearing firms, brokers, swap dealers, and other intermediaries; 55 working at asset managers, hedge funds and other end-users; and 42 working at exchanges, clearinghouses and other market infrastructure operators. The majority are focused on exchange-traded derivatives, but many are involved with cleared OTC derivatives such as interest-rate swaps. Questions explored the key drivers of change in the derivatives market, the impact of the new administration in the U.S., and how regulation may affect the market.

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