

Sample Slides

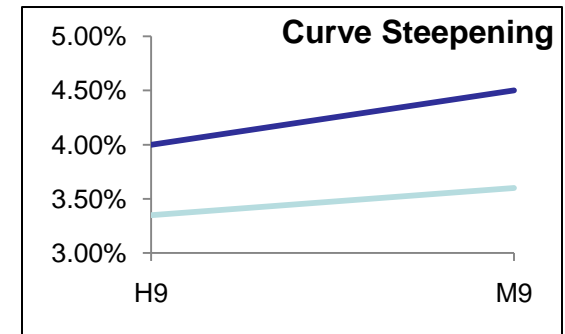


These are samples of slides taken non-sequentially from the
STIR Futures courses

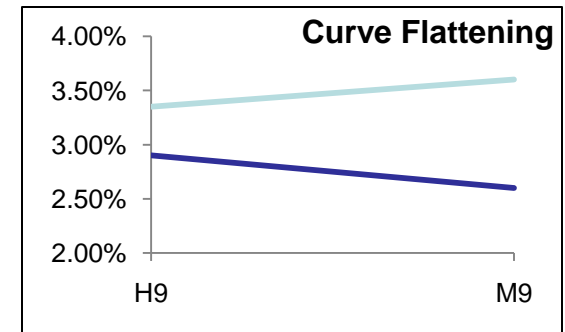
Spreads and the Yield Curve

Spreads respond to changes in the shape of the yield curve

View: Yield curve will become more positive
Trade: **BUY** the futures spread.
Example: Jan 2: H9 97.00 (3%) M9 96.75 (3.25%)
Strategy **BUY** H9M9 at **0.25**
Feb 2: Curve has become more positive
H9 96.90 (3.1%) M9 96.50 (3.5%),
SELL H9M9 at **0.40**

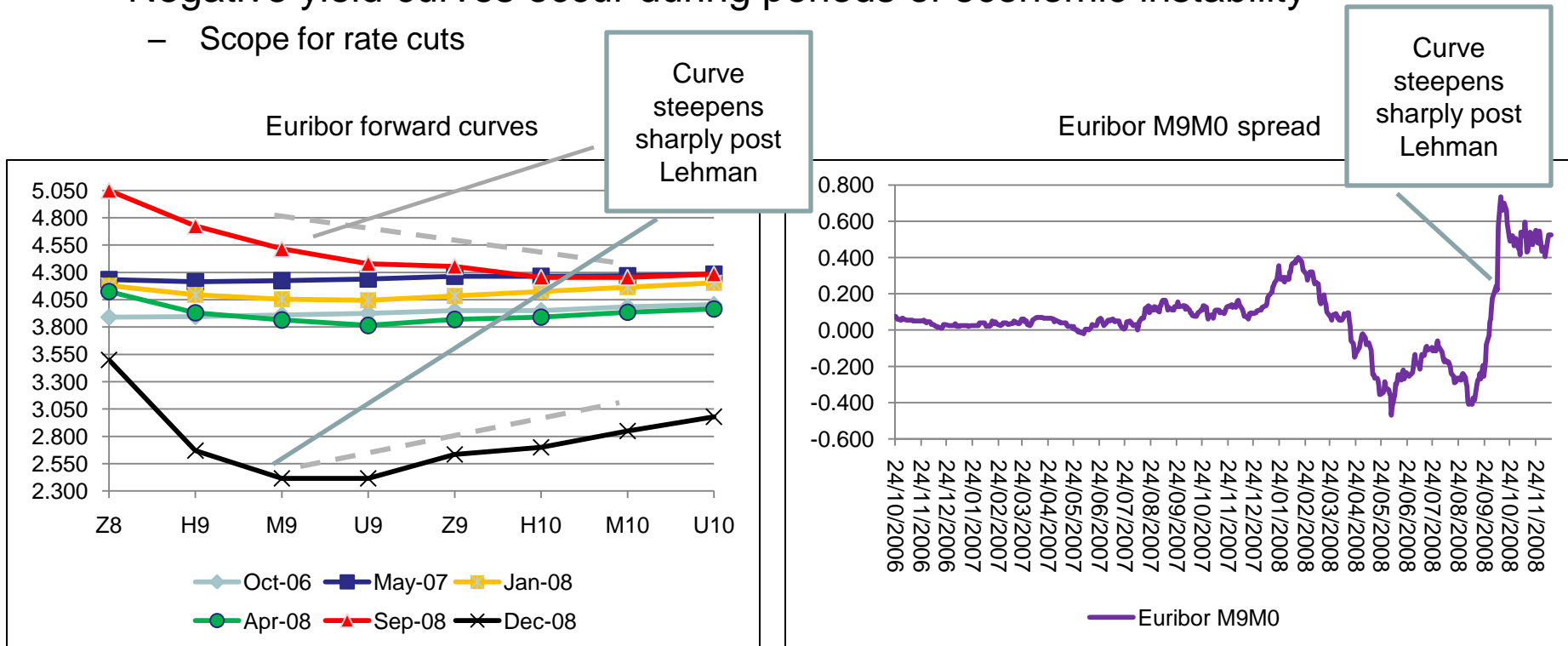


View: Yield curve will become more negative
Trade: **SELL** the futures spread.
Example: Jan 2: H9 97.00 (3%) M9 96.75 (3.25%)
Strategy **SELL** H9M9 at **0.25**
Feb 2: Curve has become more negative
H9 97.00 (3.0%) M9 97.00 (3.0%),
BUY H9M9 at **0.00**

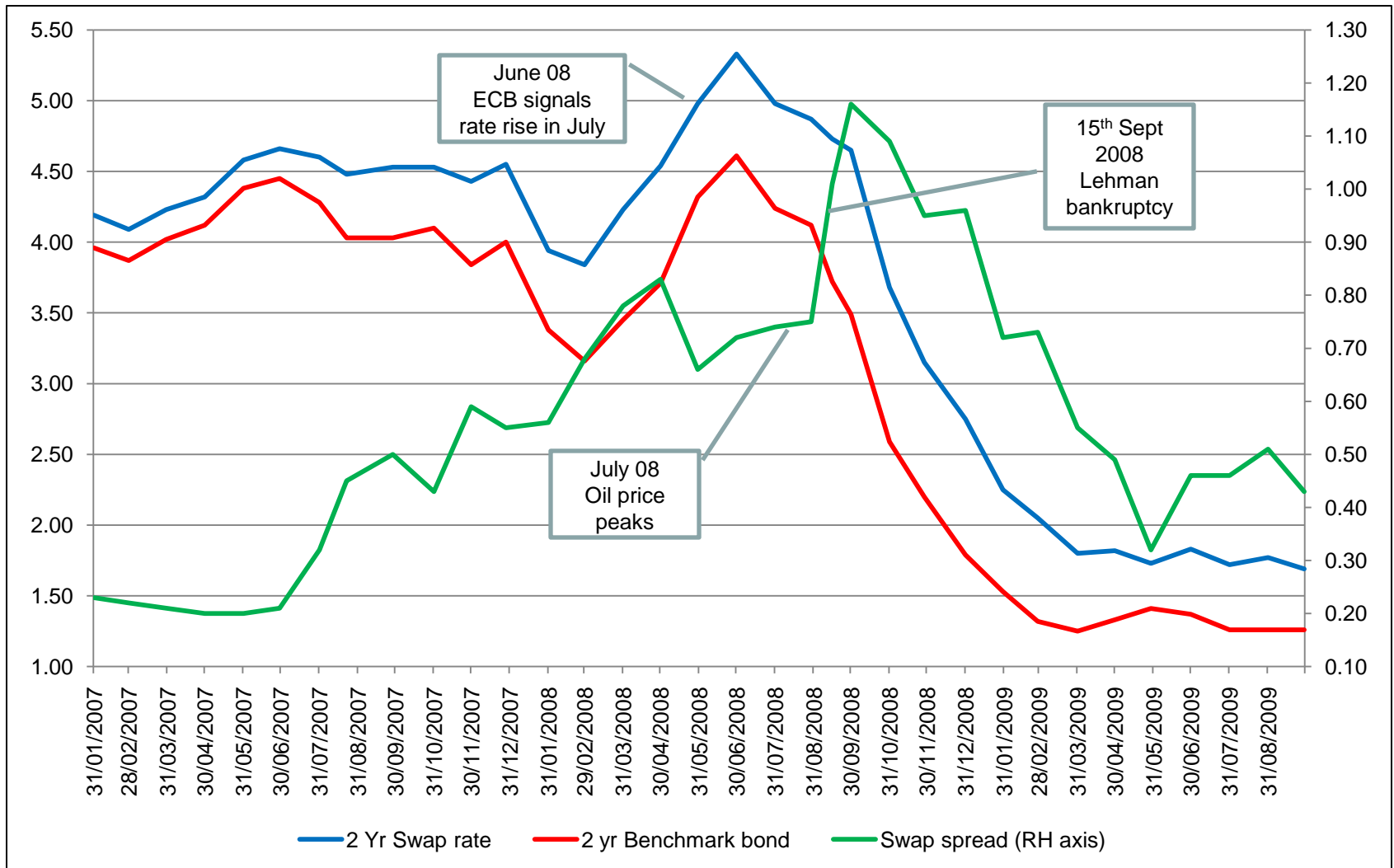


Spread Drivers

- Spreads respond to changes in the shape of the yield curve
- A positive yield curve is usual in normal economic conditions
- Negative yield curves occur during periods of economic instability
 - Scope for rate cuts



Euro 2-Year Swap Spread



Source: FT Data (monthly) – Jan 07 to Sept 09

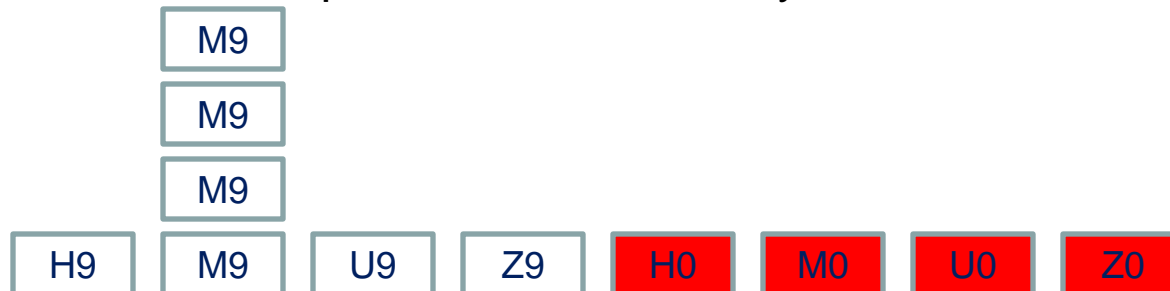
Strips, Stacks, Packs & Bundles

- Bundles, packs or stacks can be traded against bond and swap futures as a proxy for the STIR futures strip.
- Intuitively, bundles should make the best hedge since they will most closely replicate the cash flows and duration of the bond future but stacks and packs can make a good proxy...

Z5	H6	M6	U6	Z6	H7	M7	U7	2-yr bundle	White pack	Red pack
0.9327	0.9704	0.9795	0.9884	0.9937	0.9943	0.9937	0.9930	0.9920	0.9759	0.9944

Correlations between Eurex Schatz Z5 and LIFFE Euribor 21st September 2005 to 8th December 2005

- ...However the use of stacks and packs will introduce curve risk
- Strips can also be optimised or statistically determined.



3M OIS/ED Spreads

- FF OIS futures are backward looking
 - The realised rate during the Quarter calculated by daily compounding of the effective overnight index. A geometric average.
- ED futures are forward looking
 - Forward LIBOR rates
- 3M FF OIS/ED spreads need to be traded with a quarters difference
 - E.g. buy M9 OIS, Sell H9 ED

H9 STIR future – FORWARD LOOKING
Settles to 3M LIBOR in March

H9  M9

- Trade ratios (spread widening)

- + 3M Eonia / - Euribor 1:1
- + 3M FF / - ED 1:1
- + FF / - ED 3:5
- + FF / - 3M FF 3:5

OIS ED Future - BACKWARDS
LOOKING
A geometric average of the daily index
rates

