

CURVE TRADING

Fast Facts

What is it?

Euro Swapnote[®] is an on-exchange futures contract referenced to the European interbank curve.

Who is it for?

Euro Swapnote[®] futures are for anyone who wishes to gain or hedge exposure to the European interest rate swaps curve via a centrally cleared contract.

What does it provide?

Euro Swapnote[®] provides an open and efficient means of gaining euro swap market exposure in a contract that already meets new regulatory requirements.

With Euro Swapnote[®] futures available at the two year, five year, ten year and thirty year points of the curve, traders are able to take views on shape of the swap rate curve.

For example, a trader may expect the curve to steepen at the ten year point relative to the two year point. The trader would “buy the curve” by selling 10 Year € Swapnote[®] (which would return a profit if ten year yields were to rise) and buying 2 Year € Swapnote[®] (which would return a profit if two year yields were to fall) a trader could seek to profit from this expectation.

By trading an amount of each contract related to the ratio of their basis point values, the trade can be made neutral to a general rise or fall in yields, such that the trader can profit from a rise in ten year yields relative to two year yields.

When the trader enters the trade, market values are as follows:

- 2 Year spot par swap rate: 0.834%
- 2 Year IMM par swap rate: 0.835%
- 2 Year € Swapnote[®] price: 110.215
- 2 Year € Swapnote[®] BPV: €21.36 per lot

- 10 Year spot par swap rate: 1.648%
- 10 Year IMM par swap rate: 1.654%
- 10 Year € Swapnote[®] price: 140.33
- 10 Year € Swapnote[®] BPV: €113.35 per lot

The ratio of 2 Year or 10 Year € Swapnote[®] contracts to be traded is:

- $21.36 : 113.35 = 0.1884$

Therefore for each 100 lots of 2 Year € Swapnote[®] bought, 19 lots of 10 Year € Swapnote[®] should be sold.

Two weeks later, the yield curve has indeed steepened, with market rates as follows:

- 2 Year spot par swap rate: 0.848%
- 2 Year IMM par swap rate: 0.849%
- 2 Year € Swapnote[®] price: 110.185

- 10 Year spot par swap rate: 1.857%
- 10 Year IMM par swap rate: 1.857%
- 10 Year € Swapnote[®] price: 138.16

The return on this trade is:

- Return per contract =
No of Contracts x (Entry Price – Exit Price) x Tick Value / Tick Size
- Return = 2 Year € Swapnote[®] return – 10 Year € Swapnote[®] return
- Return =
(100 x (110.215 – 110.185) x €5 / 0.005) – (19 x (140.33 – 138.16) x €10 / 0.01)
- Return = **€38,230**

Further Information

Interest Rate Derivatives

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