

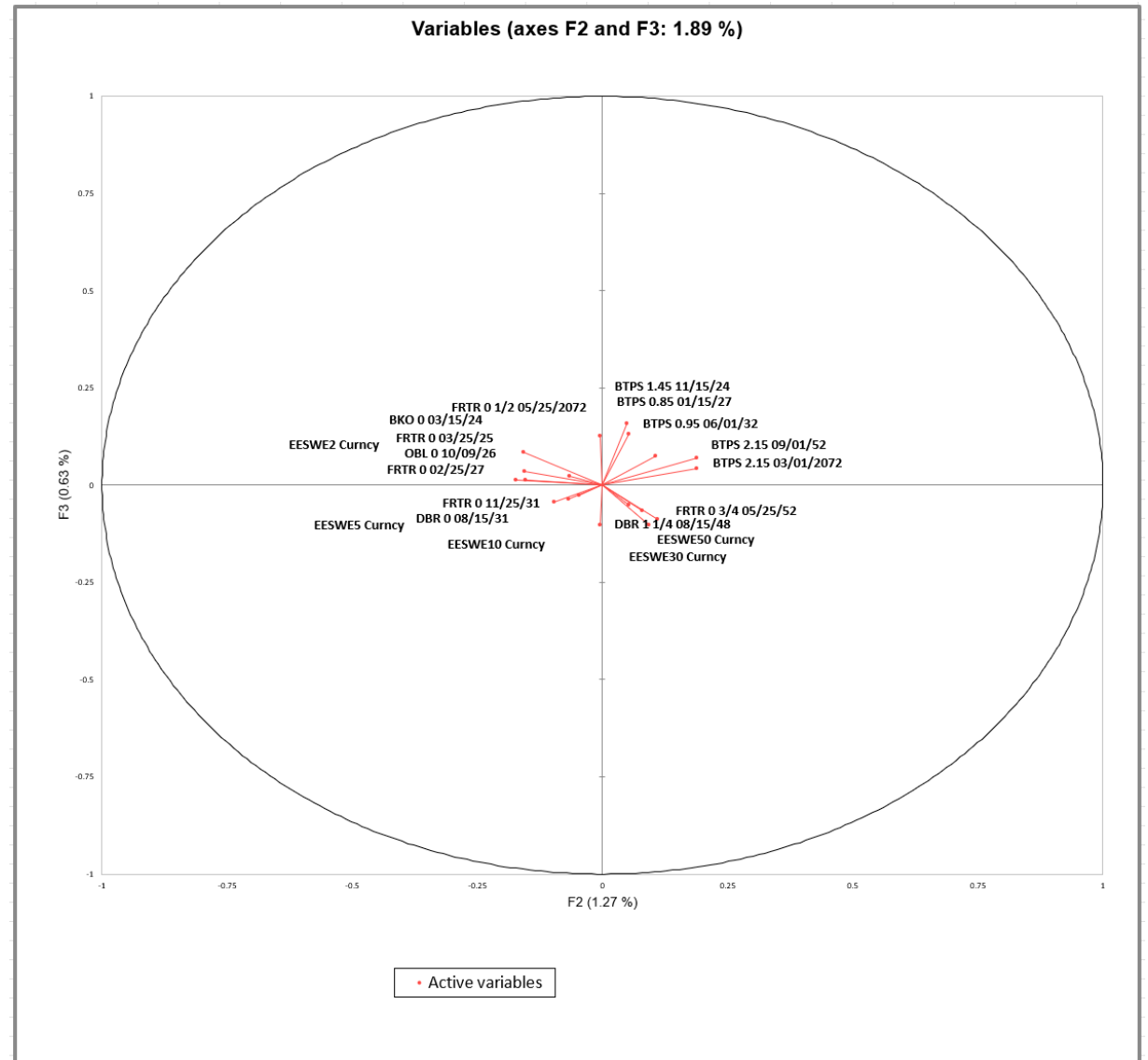
Trades and Fades The Future(s) ain't what it used to be

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June 6th 30th

Trading Strategies

& Modelling



Relative sensitivity to Principle Components 2 & 3
Of main tradeable bonds, futures & swaps
After Removing Factor 1 ~ Delta

IKU2 heavily discounted on optionality

New Btps Dec32 has a Long Maturity but a short Modified Duration – it's not deliverable into June but now looks CTD into Sep

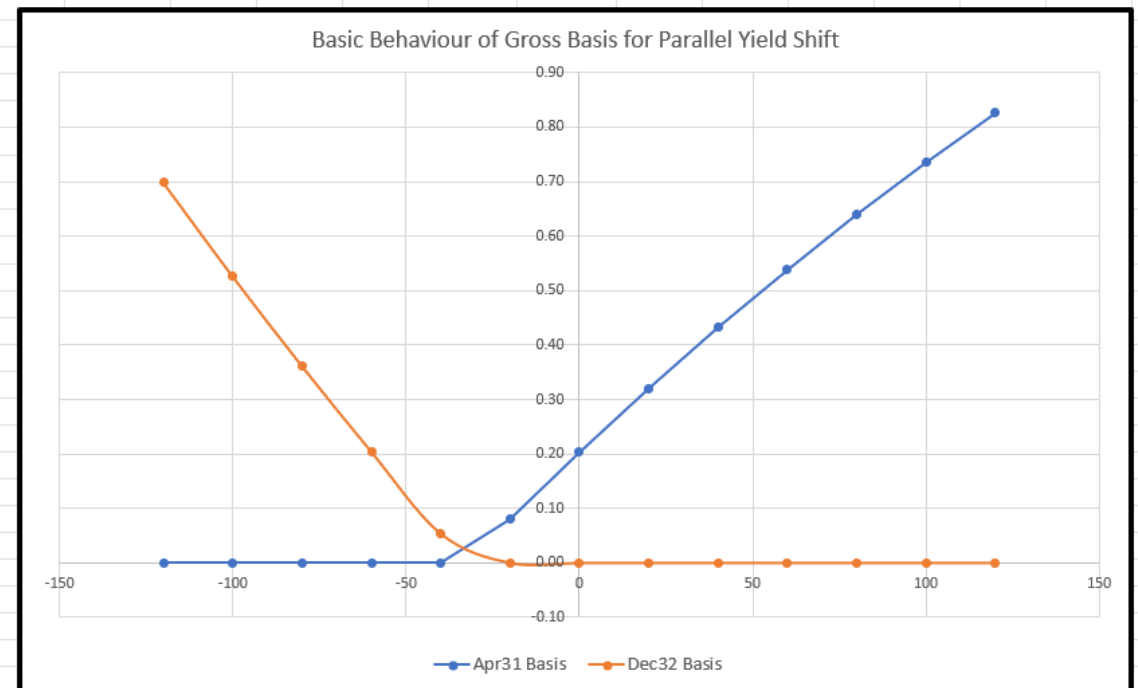
Yield Shifts & Yields												
120	100	80	60	40	20	0	-20	-40	-60	-80	-100	-120
4.828	4.628	4.428	4.228	4.028	3.828	3.628	3.428	3.228	3.028	2.828	2.628	2.428
4.583	4.383	4.183	3.983	3.783	3.583	3.383	3.183	2.983	2.783	2.583	2.383	2.183

Prices	YAS_BOND_PX											
81.80	83.21	84.64	86.11	87.61	89.14	90.70	92.29	93.92	95.58	97.28	99.01	100.78
74.488	75.665	76.864	78.084	79.326	80.592	81.88	83.193	84.529	85.890	87.277	88.689	90.127

Implied Futures prices												
110.39	112.29	114.23	116.21	118.23	120.30	122.40	124.55	126.75	128.99	131.28	133.62	136.01
111.63	113.39	115.19	117.02	118.88	120.78	122.71	124.67	126.68	128.72	130.79	132.91	135.07

Lower of the Two futures price												
110.39	112.29	114.23	116.21	118.23	120.30	122.40	124.55	126.68	128.72	130.79	132.91	135.07

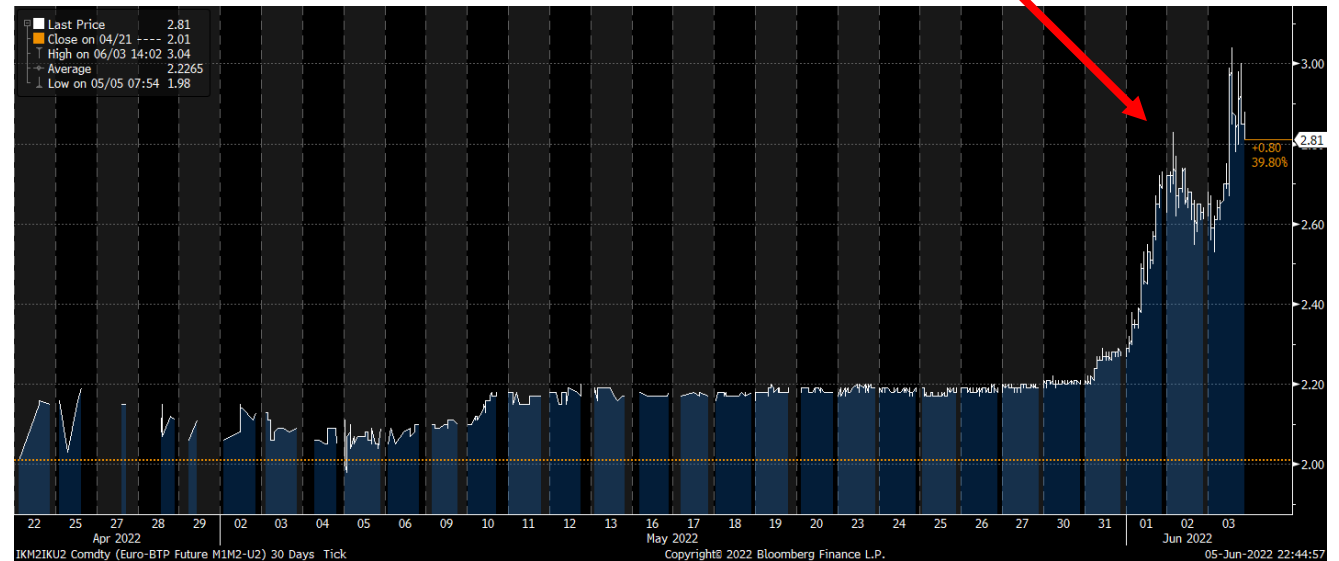
Net Basis = Gross Basis @ delivery												
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.20	0.36	0.53	0.70
0.83	0.74	0.64	0.54	0.43	0.32	0.20	0.08	0.00	0.00	0.00	0.00	0.00



IKU2: Market Level, Curve and ISIN options interplay... Cause uncertainty in what will be CTD

- A comprehensive Monte Carlo Simulation would be a complete way to model the possible outcomes for the forward yields and hence terminal basis. This is beyond scope
- We offer a simple method to calculate the current Futures Risk of the IKU2 contract
- This is a dynamic number and will change as the two bonds vie for relative status as CTD as a function of their prices and conversion Factors (CF's are constant)

IKM2 / IKU2 futures roll explodes:
Indeterminacy of CTD into Sep

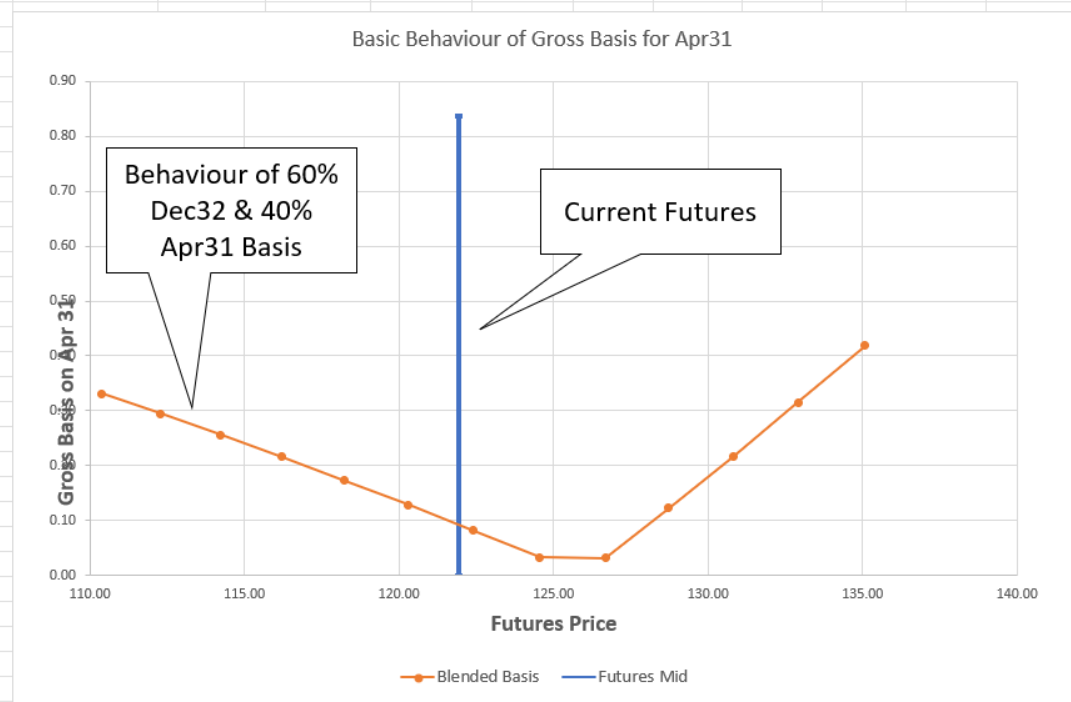


What's the Duration of my IKU2?

- Futures are a margined forward of the CTD
- With possible changes in CTD it becomes a forward of *two basis trades*, weighted by their respective probability of being CTD

Basis Trade
Nett Basis blend of 40% Apr31 and 60% Dec32

60% Dec32 Basis	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.12	0.22	0.32	0.42
40% Btps Apr31	0.33	0.29	0.26	0.22	0.17	0.13	0.08	0.03	0.00	0.00	0.00	0.00	0.00
Blended Basis	0.33	0.29	0.26	0.22	0.17	0.13	0.08	0.03	0.03	0.12	0.22	0.32	0.42



IKU2 Current Duration Calculation:

- Use distance from net Zero basis (under same repo assumption) to weight prob of delivery
 - Not a perfect model but gives a sense of the dynamic or changes
 - Call for details on the calculation
- Current probability of Dec32: 60%
 - Implied futures duration 11.0

 - Current probability of April: 40%
 - Implied futures duration 10.09

 - Estimated Futures Risk (Spot)
 - = (60% * 11.0) + (40% * 10.09)

 - = 10.64

How do we structure a trade on the basis:

- Call for more details!



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