

## Euro Rates Strategy

### New 5yr OAT Futures Contract: A First Look

- **Details:** On 11 March 2013 a new Mid-Term Euro-OAT Futures contract will start trading. This contract follows the successful launch of a 10yr OAT contract in 2012.
- The contract specifications are structurally similar to the Bobl future.
- **CTD:** Based on current levels, the CTD to June is likely to be the 4% Apr18 (by a comfortable margin).
- The second CTD would have to cheapen by over 26bp vs Apr18s to become CTD to June. Based on the historical yield spread between Apr18s and other deliverables the likelihood of a CTD switch is extremely low in our view.

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## New 5yr OAT futures contract

On 11 March 2013 a new Mid-Term Euro-OAT Futures contract will start trading. This contract follows the successful launch of a 10yr OAT contract in 2012 which has seen its aggregate open interest (OI) continuously increase since it was first launched on 13 April 2012 to 23% of the Bund contract (Figure 1).

### The contract specifications are structurally similar to the Bobl future<sup>1</sup>

- The remaining term of deliverable mid-term OAT bonds will be 8.5-10.5 years with a maximum maturity at issue of 17 years.
- The notional coupon will be 6% and the contract value is €100,000.
- Delivery day will be the tenth calendar day of the respective quarterly month. The quarterly contract months are March, June, September and December.
- The minimum tick size will be 0.01% percent (€10 per tick).

### June contract

Thursday 6 June 2013 will be the last trading day for the June contract. The first (and last) delivery day is Monday 10 June 2013.

### Deliverables basket for June contract

Based on current levels, the CTD to June is likely to be the 4% Apr18 (by a comfortable margin) - Figure 2. Assuming a net basis of zero the June contract is likely to have a price of around 124.46 (based on current levels of the underlying).

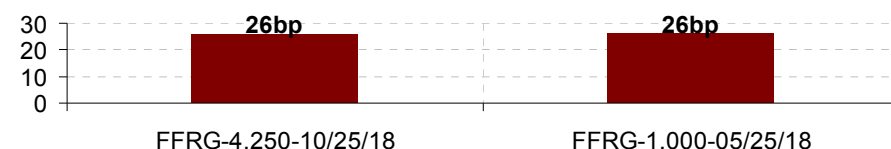
Figure 2. Deliverables into the Mid-term OAT Futures Contract (assuming CTD net basis = 0)

Bond	Conv Factor	Gross Basis	Net Basis	Conv Fwd Price	Impl Repo %	Amt Out (€bn)
FFRG-4.000-04/25/18	0.917461	1.06	0.00	124.46	0.02	26
FFRG-1.000-05/25/18	0.790962	1.58	1.32	126.12	-4.85	8
FFRG-4.250-10/25/18	0.921278	2.66	1.53	126.12	-4.77	26

Source: Citi Research

The second and third CTD would have to cheapen by over 26bp vs Apr18s to become CTD to June (Figure 3). Based on the historical yield spread between Apr18-May18 we see the likelihood of a CTD switch is extremely low.

Figure 3. Required cheapening vs Apr18 to become CTD into the June contract



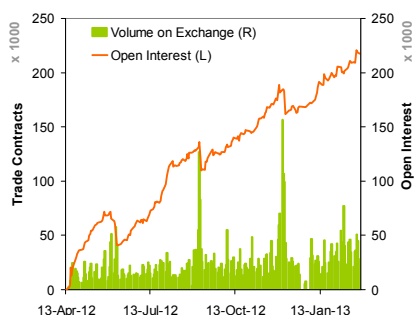
Source: Citi Research

### Summary

A new 5yr OAT contract will begin trading on 11 March 2013. The contract specifications are structurally similar to the Bobl future. We expect 4% Apr18 to be CTD to June and view the likelihood of a CTD switch as very low.

<sup>1</sup> For further details on the contract specifications see <http://www.eurexgroup.com/blob/group-en/46532-156088/402716/2/data/er13027e.pdf>

Figure 1. Open interest in the 10yr OAT contract has continuously increases since it was first launched in April 2012



Source: Citi Research

### 4% Apr18 to be CTD to June

### Unlikely to see a CTD switch

## Appendix A-1

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