

Inflation Derivatives

*Euro-Inflation Futures –  
Actively Manage  
Your Inflation Risk*

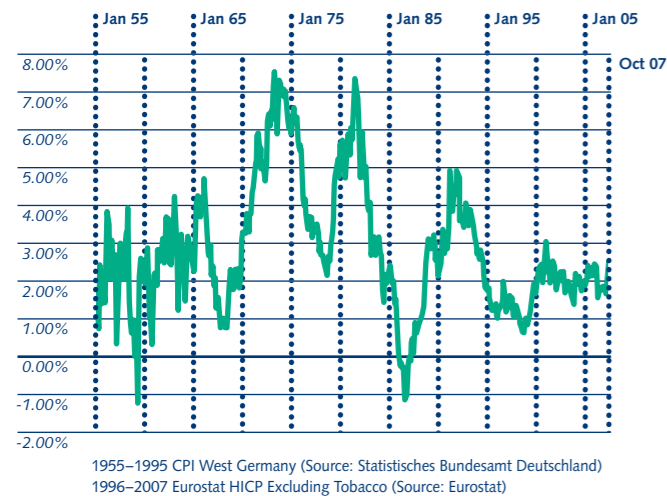
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## Eurex Euro-Inflation Futures

With the introduction of Euro-Inflation Futures<sup>1</sup> on January 21, 2008, Eurex is the first European exchange to offer futures on inflation thus enabling market participants to trade and hedge risk via short-term inflation-linked products. Our new product complements the rapidly growing global markets in inflation-linked cash products and OTC derivatives.

### Overview: Annual Inflation Rate 1955–2007



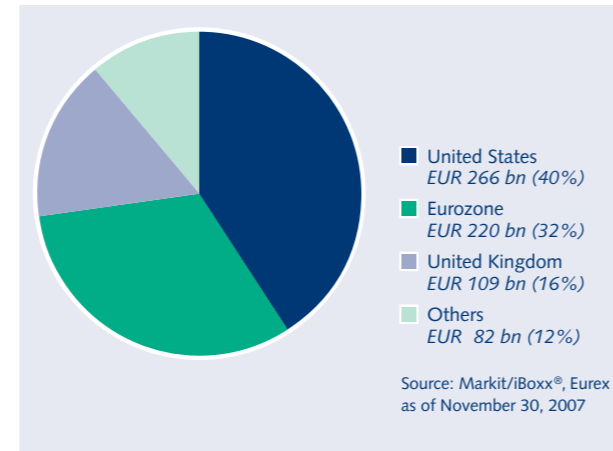
## Riding the Trend: Inflation-Linked Products

On a global scale, the volume in inflation-linked bonds has grown strongly in the recent past. Currently their total outstanding nominal value is roughly EUR 700 billion, which reflects a sixfold increase for the period between 1997 and 2007.

The Eurozone accounts for about 32 percent of inflation-linked government bonds worldwide, and the European inflation swap market is today the most liquid in the world.

<sup>1</sup> Euro-Inflation Futures are permitted for trading via terminals located in the U.S.

## Inflation-Linked Bonds – Worldwide Issuance by Country



## Providing a Variety of Benefits

Investment banks, asset managers and institutional investors can all benefit from the opportunity to hedge their OTC fixing and reset risk with Eurex short-term futures contracts such as EURIBOR and EONIA Futures. Simultaneously, the new Euro-Inflation Futures enable users to manage their exposure to inflation within the Eurozone.

Using our Euro-Inflation Futures, you can design and implement fixed income portfolio hedges with specific time horizons or performance objectives. The risk premium compensates for any differences between expected and actual inflation. Traders may also spread these contracts against nominal EUR-denominated money market futures in order to isolate “real interest rates”. Additionally, Eurex Euro-Inflation Futures support the pricing of seasonal trends in inflation.

Designated Market Makers will support the new contract to guarantee liquidity, which will further improve inflation-linked swap markets.

## Contract Specifications

Eurex market participants are able to trade short-term risks arising from inflation products in a standardized way.

### Overview: Contract Specifications

<b>Underlying</b>	Unrevised Harmonised Index of Consumer Prices of the Eurozone excluding tobacco (HICP)
<b>Eurex Product ID</b>	HICP
<b>ISIN</b>	DE000A0QZFK9
<b>Contract Value</b>	EUR 1,000,000
<b>Settlement</b>	Cash settlement, payable on the first exchange day after the Final Settlement Day
<b>Price Quotation</b>	In percent, with two decimal places based on 100 minus the annual inflation rate based on the HICP
<b>Minimum Price Change</b>	0.01 percent; equivalent to a value of EUR 100
<b>Contract Months</b>	The next 20 successive calendar months.  The futures contract is the annual inflation rate in the twelve-month period preceding the maturity month (for example, the February 2009 maturity refers to the annual inflation rate measured during the time period from January 2008 to January 2009)
<b>Last Trading Day</b>	Last Trading Day and Final Settlement Day of the Euro-Inflation Futures contract is the day Eurostat announces the HICP, if this is an exchange day; otherwise the exchange day immediately preceding that day.  Close of trading for the maturing contract month is at 10:00 CET
<b>Daily Settlement Price</b>	The Daily Settlement Price is the closing price fixed in the closing auction. If it is not possible to fix a closing price within the closing auction, or if the price thus fixed does not reflect the actual market conditions, Eurex Clearing AG will determine the settlement price.
<b>Final Settlement Price</b>	The Final Settlement Price is established by Eurex on the Final Settlement Day. The Final Settlement Price of an Euro-Inflation Futures contract is calculated in percentage with four decimal places based on 100 minus the annual inflation rate of the twelve month period of the HICP (rounded to four decimal places) preceding the current maturity month. The underlying formula for the calculation of the maturing contract month (t) is:  $FSpt = 100 - (100 \times (HICP_{t-1} / HICP_{t-13} - 1))$  The calculation takes place on the Last Trading Day after Eurostat's publication of the latest index (approximately 11:15 CET).

Like all contracts listed at Eurex, Euro-Inflation Futures are cleared by Eurex Clearing AG. The Clearing House is the buyer to every seller and the seller to every buyer, thus eliminating counterparty risk. You therefore benefit from the efficiency and security of established standardized trading, clearing and settlement processes.

## New Auction Market Model: Two Daily Auctions

Due to the fact that inflation and inflation expectations usually do not change continuously, Eurex has established a new auction market model. The new model is comprised of two 15-minute auctions per day – one in the morning and one in the evening – in order to concentrate liquidity. Between the two auctions, the market is open for continuous trading during which traders can also request quotes.

### Overview: Trading Hours & Auction Phases

Pre-Trading	09:00–09:45 CET
<b>Opening Auction</b>	<b>09:45–10:00 CET</b>
Continuous Trading	10:00–16:45 CET
<b>Closing Auction</b>	<b>16:45–17:00 CET</b>
Post-Trading	17:00–17:30 CET

## Netting Process

A netting process is used at the end of the twice-daily auctions to determine the price at which orders are matched. This netting is conducted to determine a price that results in the highest executable volume.

Orders with better prices (higher bid prices, lower ask prices) get preference in the determination of which orders are actually executed in the auction, as do orders that were entered first at a specific limit price. As is customary, market orders have priority over limit orders. Unmatched limit orders will remain in the order book.

## Wholesale Trading Facilities

Eurex Wholesale Trading facilities enable users to enter off-order book trades in the Eurex® system. Most facilities are pure OTC Trade Entry facilities with bilateral agreement of price and quantities.

For Euro-Inflation Futures we offer:

- OTC Block Trades – Minimum size of 50 contracts
- OTC Exchange for Physicals Trades
- OTC Exchange for Swaps Trades

## Trading Euro-Inflation Futures – Example

The way that pricing works is similar to pricing in the EURIBOR contract, where 100 minus the expected interest rate equals the contract price.

The market for the 2008 September Inflation Future is currently quoted 97.90/98.00 and at each side 20 contracts are available. So, in this case, the market expects August inflation to be 2.10 percent bid at 2.00 percent ask.

If a trader wants to be long inflation, he should sell Euro-Inflation Futures. Conversely, if a trader thinks that inflation will decrease, he should buy Euro-Inflation Futures.

### Sample Calculation

A trader expects higher inflation than 2.10 percent. So, he enters an order to sell 20 lots at 97.90 which matches at the 97.95 auction price. The trader holds the position until maturity, the calculation below shows profit/loss at settlement:

Eurostat publishes the HICP (excluding tobacco) for August 2008 in mid September 2008 as 106.55. The August 2007 published figure was 104.19. The Final Settlement Price for the August 2008 contract month and the profit can be calculated thus:

#### Final Settlement Price

$$100 - (100 \times (106.55/104.19 - 1)) = 97.7349$$

A Final Settlement Price of 97.7349<sup>2</sup> equals a year-on-year inflation rate of 2.2651 percent (August 2007 versus August 2008). The profit on the trade can be calculated as follows:

#### Profit

$$97.95 - 97.7349 = 21.51 \text{ Ticks}$$

$$21.51 \text{ Ticks} \times 20 \text{ Lots} \times \text{EUR } 100 = \text{EUR } 43,020$$

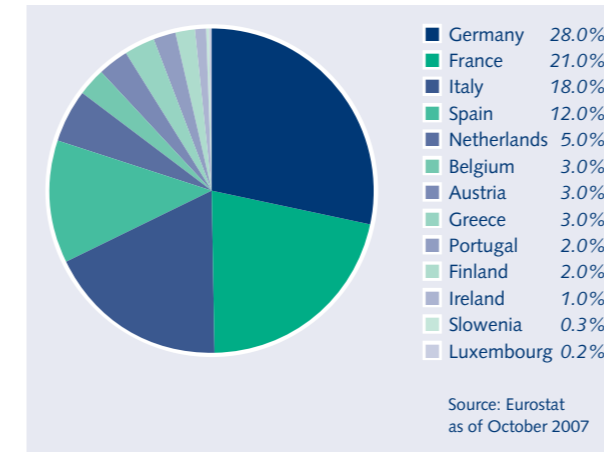
## The Reference Index – HICP

Our inflation futures are based on the Harmonized Index of Consumer Prices (HICP) of the Eurozone excluding tobacco. The HICP for the Eurozone has been calculated by Eurostat since 1996. It measures the level of prices for market goods and services consumed by Eurozone households.

Harmonization means that the same methodology is adopted for the price indexes covering the countries in the Eurozone, and in the European Union (EU). This allows for a comparison of inflation rates among the different EU member states.

The Eurozone HICP is an aggregate of the actual 13 member states' HICP indexes. The inflation rate in the Eurozone is calculated as a weighted average of inflation rates in each member state, weighted by GDP.

### Euro HICP – Country Weightings



## Vendor Codes

### Bloomberg

Future: HICA <Index> CT <Go>

### Reuters

Future: <0#HICP:>

## Further Information

For more detailed information on Eurex Euro-Inflation Futures, please refer to the Eurex website [www.eurexchange.com](http://www.eurexchange.com).

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<sup>2</sup> rounded to four decimal places



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