

Dow Jones-UBS Commodity IndexSM derivatives at Eurex Exchange

Since more than ten years, financial institutions are increasingly using commodities in the investment process for various reasons like inflation hedging and diversification or because of geopolitical developments. Often, broader commodity indexes or certain sectors are used as tools to go long or short in this asset class and with this, there exists a wide variety of commodity indexes representing different investment strategies.

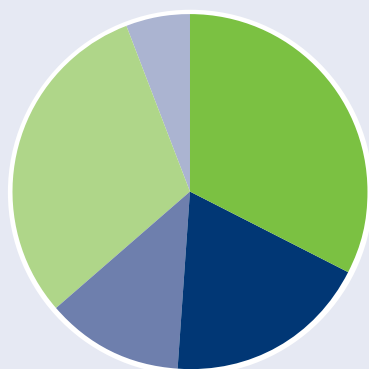
Dow Jones-UBS Commodity IndexesSM – a highly liquid and diversified benchmark

In general, indexes are designed for measuring market moves. This is especially useful for a heterogenous asset class like commodities. The Dow Jones-UBS family of commodity indexes is one of the leading benchmarks in this area. Established in 1998, the Dow Jones-UBS Commodity IndexSM was specifically created to offer investors a broad access to commodity markets, complementing the existing range of single products like gold, oil or wheat. To secure the basic principle of diversification, caps per single commodity and sector have been set to avoid the index's domination by, for example, the highly volatile energy sector, as it is the case with the S&P GSCI index, which is weighted up to 70 percent in energy.

The Dow Jones-UBSCISM includes 20 commodities which are chosen primarily based on liquidity data of the underlying futures contracts, but also taking production data into account.

Eurex Exchange has picked the Dow Jones-UBS index family and has started trading with Europe's first futures contracts in March 2009. Initially, four different futures were available, covering the broad benchmark and the major subindexes for Agriculture, Energy and Industrial Metals. Since June 2010, futures on the full range of nine subindexes are available; in June 2011 the offering has been widened to also cover options on the Dow Jones-UBS Commodity IndexSM.

The Dow Jones-UBS Commodity IndexSM – weighting 2012



Energy	32.63%	Agriculturals	30.42%
WTI Crude Oil NYMEX	9.69%	Wheat CBOT	4.96%
Brent Crude Oil ICE	5.31%	Corn CBOT	6.67%
Heating Oil NYMEX	3.46%	Soybeans CBOT	7.08%
Gas Oil (RBOB) NYMEX	3.41%	Cotton ICE	2.00%
Natural Gas NYMEX	10.77%	Sugar ICE	3.76%
		Coffee ICE	2.57%
Industrial Metals	18.64%	Soybean Oil CBOT	3.37%
Aluminium LME	5.88%		
Copper COMEX	7.06%	Livestock	5.75%
Nickel LME	2.58%	Live Cattle CME	3.63%
Zinc LME	3.12%	Live Hogs CME	2.11%
Precious Metals	12.56%		
Gold COMEX	9.79%		
Silver COMEX	2.77%		

All Eurex Dow Jones-UBS Commodity IndexSM Futures and Options

Contract	Product ID	Underlying	Vendor code (Thomson Reuters)	Vendor code (Bloomberg)
Dow Jones-UBS Commodity Options	OCCO	Dow Jones-UBS Commodity Index SM	<0#FCCO*.EX>	DJUBS index OMON
Dow Jones-UBS Commodity Futures	FCCO	Dow Jones-UBS Commodity Index SM	<0#FCCO:>	FCOA index
Dow Jones-UBS Agriculture Futures	FCAG	Dow Jones-UBS Agriculture Subindex SM	<0#FCAG:>	FCDA index
Dow Jones-UBS Energy Futures	FCEN	Dow Jones-UBS Energy Subindex SM	<0#FCEN:>	FCEA index
Dow Jones-UBS Ex Energy Futures	FCXE	Dow Jones-UBS Ex Energy Subindex SM	<0#FCXE:>	UBEA index
Dow Jones-UBS Grains Futures	FCGR	Dow Jones-UBS Grains Subindex SM	<0#FCGR:>	UBRA index
Dow Jones-UBS Industrial Metals Futures	FCIN	Dow Jones-UBS Industrial Metals Subindex SM	<0#FCIN:>	FCIA index
Dow Jones-UBS Livestock Futures	FCLI	Dow Jones-UBS Livestock Subindex SM	<0#FCLI:>	UBLA index
Dow Jones-UBS Petroleum Futures	FCPE	Dow Jones-UBS Petroleum Subindex SM	<0#FCPE:>	UBOA index
Dow Jones-UBS Precious Metals Futures	FCPR	Dow Jones-UBS Precious Metals Subindex SM	<0#FCPR:>	UBPA index
Dow Jones-UBS Softs Futures	FCSO	Dow Jones-UBS Softs Subindex SM	<0#FCSO:>	UBSA index

Contract specifications

	Futures	Options
Currency	USD	
Contract value	Contracts have a multiplier of USD 250.	
Settlement	Cash settlement, payable on the first exchange day following the Final Settlement Day.	
Minimum Price Change	The Minimum Price Change is 0.01 points, equivalent to a value of USD 2.50.	
Contract months	Up to 60 months: The four nearest successive quarterly months of the March, June, September and December cycle, the four following semi-annual months of the June and December cycle thereafter, and the two following annual months of the December cycle thereafter.	
Last Trading Day and Final Settlement Day	Last Trading Day is the exchange day preceding the Final Settlement Day. Final Settlement Day is the last Friday of each maturity/expiration month if this is an exchange day; otherwise the exchange day immediately preceding that day.	
Final Settlement Price	The Final Settlement Price is established by Eurex seven exchange days preceding the Final Settlement Day. The Final Settlement Price is based on the closing price of the index on that day, provided no futures represented in the index is suspended at that time. If one or more components are disrupted that day, the next tradable close price just for those components will be used instead (see last page for further details).	
Exercise	–	European-style
Exercise price intervals in USD	–	< 12 months: 5 > 12 months: 10
Trading hours	09:00–18:00 CET (EurexOTC: 09:00–21:30 CET)	09:00–18:00 CET (EurexOTC: 09:00–20:30 CET)
Minimum block trade size	50 contracts	1 contract

Dow Jones-UBS Commodity (Sub-)IndexSM Futures

Trading or investing in Eurex commodity index futures offers a number of benefits in comparison to products like index swaps or ETCs:

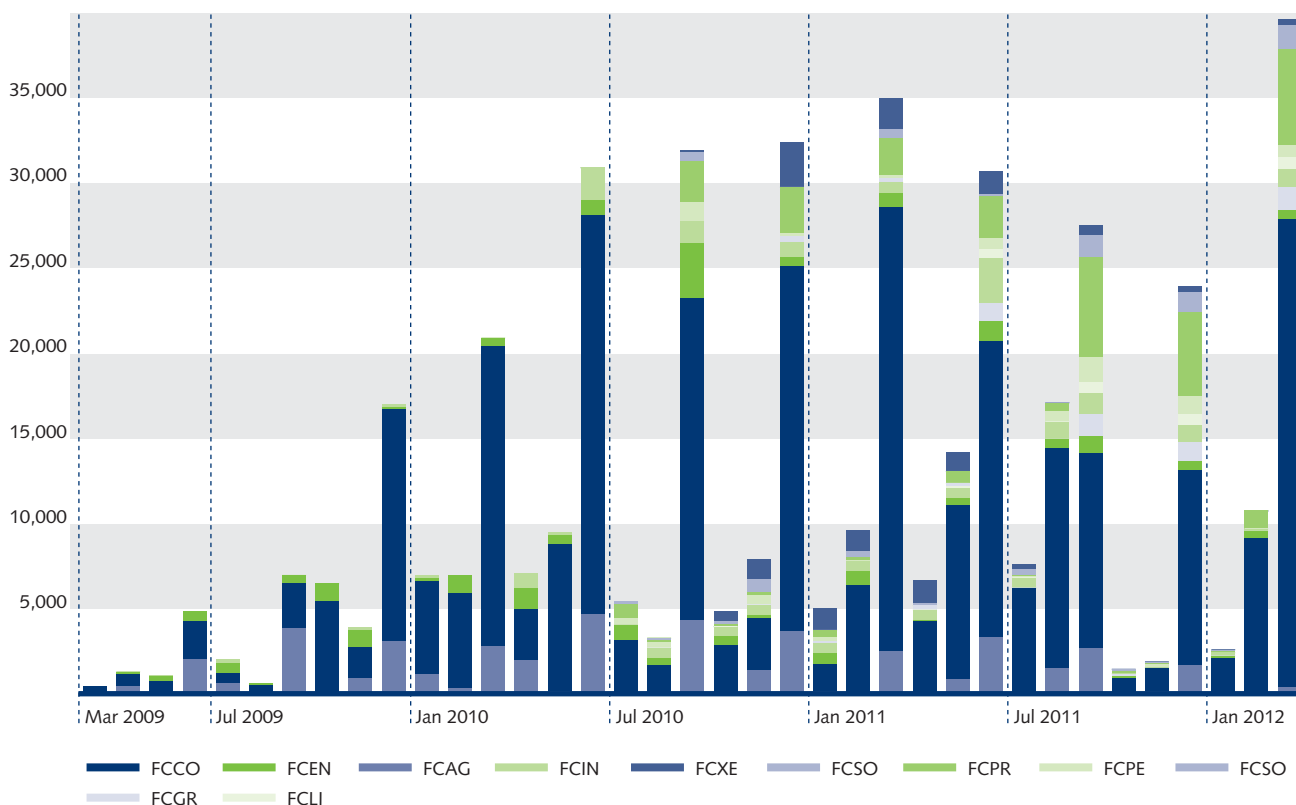
- Elimination of counterparty risk
- The futures are based on excess return indexes rather than total return, therefore chance to outperform the T-bill component
- Less efforts necessary for trade documentation or checking credit lines as with index swaps
- Institutional investors might be limited in their use of single commodity products like gold, but can still use a precious metals index
- Transparency by on-screen Market-Making
- Different Market Makers enable block trades, which also allows you to “trade at index close” by entering the trade early the next morning
- Ability to go long and short with just one instrument
- No hidden costs or license fees
- Small contract sizes allow you to fine-tune your trading or position management

Market Makers

The following Market Makers can be contacted for block trades. That is advantageous as they might be able to offer tighter spreads and higher size on request than those permanently quoted on the Eurex screen.

Company	Contact person	Phone
Unicredit	Daniel Becker	T +49-89-3781-50 94
Flow Traders	Maurice Oomens	T +31-2-0799-67 67

Monthly trading volume in Dow Jones-UBS Commodity (Sub-)IndexSM Futures (March 2009 – March 2012)



Dow Jones-UBS Commodity Options

Whereas most of the Delta-1 trading (i.e. in Futures, ETFs, ETCs, Swaps) in commodity indexes is still linked to the S&P GSCI index, it seems to be different when it comes to options. According to statements by a number of commodity index traders and interdealer brokers, the Dow Jones-UBS Commodity IndexSM is the most active commodity index for options in the OTC markets.

Eurex Exchange is therefore keen to add some transparency to this market and bring parts of this segment onto an exchange and into a centrally-cleared environment. As it is quite often the case, when an exchange tries to move into an area which is completely in the OTC space so far, there are many institutions who would like to have a listed version of what they trade already, but there are not many willing to bring it from here to there. Eurex Exchange wants to enable trading by setting the block trade size to one contract as long as the Market-Making support for this new product is rather limited. With this, bilaterally negotiated option trades of every size can be entered into Eurex Clearing.

Settlement procedure for Dow Jones-UBS Commodity Futures and Options

Most of the contract specifications are quite similar to other Eurex products, but the way of defining the Final Settlement Price is different and has also changed with the launch of the options:

Like in the OTC markets, it has to be defined how to handle potential market disruption events which occur mainly in agriculture futures in times of higher volatility. Certain commodity futures are suspended from trading, whenever they reach their pre-defined price limits during a trading day. Prices of such a day should not be used for the Final Settlement Price of the Eurex products. On the other hand, the exchange needs to define the Final Settlement Price until the Final Settlement Day. Therefore, we take the Final Settlement Prices (i.e. the index close) already some days before the Final Settlement Day. The contracts have a buffer of seven (Eurex) trading days between the normal fixing of the settlement price and the Final Settlement Day. Whenever one or more commodities are disrupted on the day of the Final Settlement Price fixing, we take the next days close for that commodity instead. With this, even a market disruption in e.g. cotton futures of six days in a row would not create any issues.

This buffer, which was only four days in the past, has increased to seven with the introduction of the options, as well as for all listed Dow Jones-UBS Commodity (Sub-)IndexSM Futures. At the same time, the Final Settlement Day has changed from the fourth Friday to the last Friday assuring that the seven day buffer will not overlap with the index roll of the Dow Jones-UBS Commodity IndexSM, which takes place always from the fifth to the ninth U.S. business day.

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