

Euro High Yield Index Futures

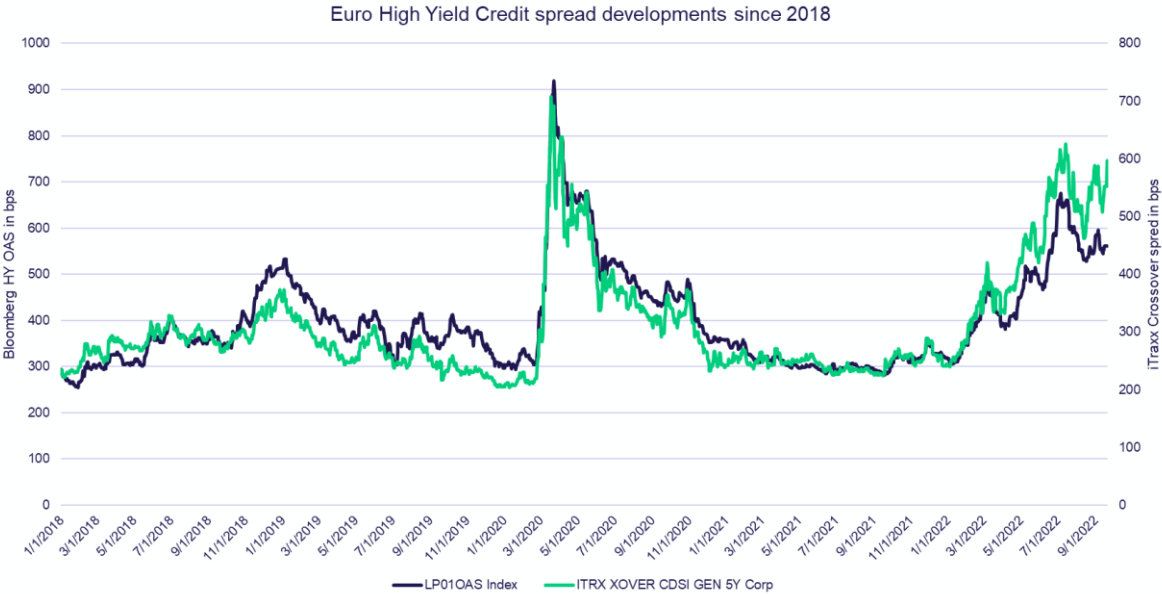
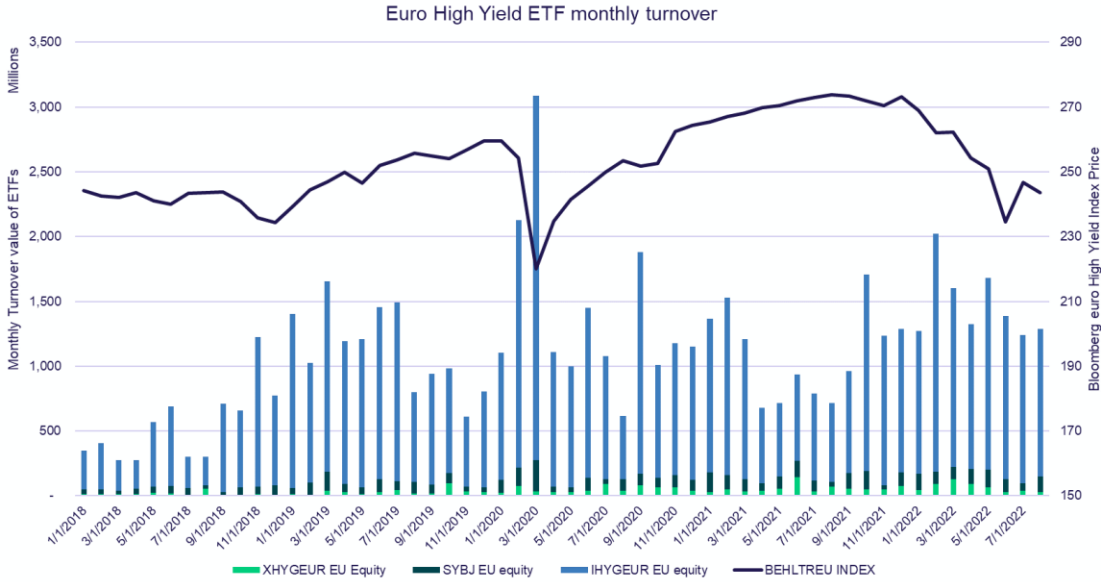
January 2023

Agenda

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1 Product Launch Background

Volatility in the Euro high yield segment soared as Europe readies to exit a decade of ultra-low rates



Comments

Inflationary pressures leading to higher borrowing costs caused EUR HY credit spreads to widen in 2022. Increased volatility and higher perceived risk for the future have increased the need for hedging for market participants invested in this asset class.

In response to market demand, Eurex will launch a futures contract on the Bloomberg Liquidity Screened Euro High Yield Index on **17 October 2022**.

With the Euro High Yield Index Futures Eurex offers a flexible product to take exposure to the Euro corporate bond market through a standardized, cost effective and centrally cleared solution.

Contract Specifications: Euro High Yield Index Futures

Eurex Futures on Bond Indices

Contract Standard	Futures on Bloomberg Liquidity Screened Euro High Yield Bond Total Return Index Value Unhedged EUR
Contract Value	EUR 200 per index point (index trades currently at EUR 230.00 index points)
Eurex Product Code / Vendors Code	Eurex: FEHY // Refinitiv: 0#FEHY: // Bloomberg: AHWA <Index>
Future ISIN	DE000A3DLQ96
Underlying Index ISIN	GB00BZ76DV77 – Bloomberg ticker: BEHLTREU <Index>
Minimum Block Trade size	100 (equivalent to EUR 5,000,000 in notional terms)
Price Quotation	In points with two decimal places / 0.02 Points = EUR 4
Tick Size / Tick value	
Trading hours	8:00 a.m. to 7:00 p.m. CET
Contract Months	The three nearest quarterly months of the March, June, September and December cycle
Last Trading Day/ Final settlement day	Third Friday of each maturity month if this is an exchange day; otherwise the exchange day immediately preceding that day; close of trading in the maturing futures on the last trading day is 17:15 CET. Final settlement day is the exchange day immediately following the last trading day
Final settlement Price	The final settlement price is established by Eurex on the final settlement day of the contract and is based on the closing price of the index (TR, EUR) on the last trading day.
Daily settlement price	Determined from the volume weighted average of all transactions during the minute before 17:15 CET (reference point), provided that more than 5 trades transacted within this period
Settlement	Cash settlement, payable on the first exchange day after following the expiration day

The Bloomberg Liquidity Screened Euro High Yield Index provides a reliable benchmark for the Euro HY space and is well correlated with the iBoxx HY index

Key Index statistics

Components	517
Market Value	EUR 266.7 bn
Amount Outstanding	EUR 292.9 bn
Average Coupon	3.68
Average Maturity	3.82 Y
Average Duration	3.46 Y
Rating	BA3 / B1

Index

Differences with iBoxx

Methodology

• High Yield Euro-denominated corporate bond universe satisfying the below criteria:



Between 1 year and 15 years until final maturity



EURO denominated



Below Investment grade (rating between BB+ and CCC-)



Minimum amount outstanding of Eur250MM



Fixed Coupon

Markit iBoxx EUR Liquid High Yield Index TRI differences with the Bloomberg benchmark

Maturity



- New bonds considered for inclusion have a **maturity between 2 and 10.5 years**.
- This **lowers the average maturity of the iBoxx** to 3.7 Y and the average duration to 3.26Y

Debt Seniority



- **Subordinate bonds** are included in the iBoxx and make up ca. 5% of the Index.
- These bonds have more equity-like characteristics, hence not included in the Bloomberg one.

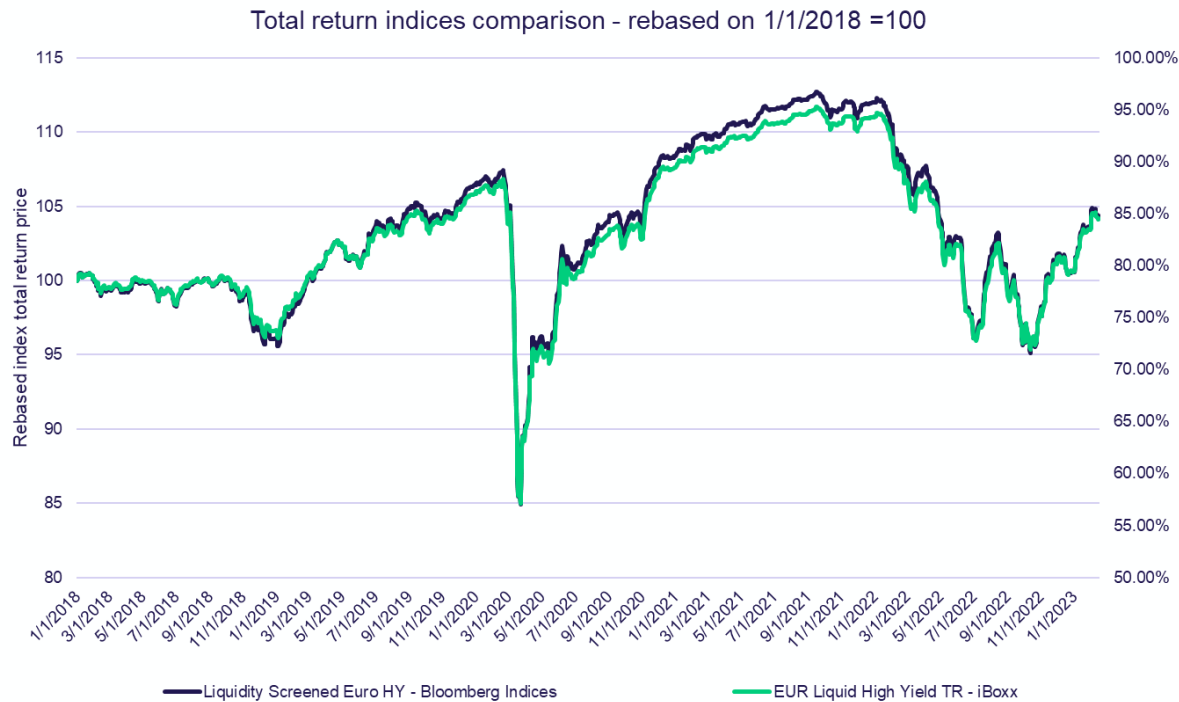
Geography



- **LATAM, Middle East and North-Africa** company issuances are included in the the iBoxx.
- **Bloomberg does not** include these countries, but have larger exposures to North America, Europe and Asia.

Total return comparison between the Bloomberg and iBoxx indices shows that they share very similar risk-return characteristics

- The daily returns since 2015 show that the two indices are very well correlated even when looking at the short term correlation rates (90-day window)
- The differences between the two index methodologies / inclusion criteria saw the Bloomberg index outperforming the Markit iBoxx index at an annualized rate of 10bps since 2018. The annualized **tracking error** between the 2 indices amounts at **ca. 85bps**



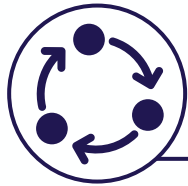
Statistics of Total Returns – 2018/01 to 2023/01

Statistics	Bloomberg HY Index	iBoxx HY Index
Annual Average Returns	1.35%	1.28%
Annual Average STD	6.26%	5.86%
Average Sharpe Ratio Overall	0.25	0.25
Min Daily Return	-3.93%	-3.86%
Max	2.13%	1.96%

3 Opportunities in Trading Eurex Euro High Yield Index Futures

Product Use Cases

- The main result of our end-customer consultations pointed to clients necessity to use a portfolio of products to express their view credit: ETF and index derivatives, Cash bonds (portfolio trades) and OTC (primarily TRSs)
- Ultimately, the choice of the preferred instrument will be driven by costs. ETDs are the prime candidate to succeed in the derivatives space, as they are the most cost-effective solution



Liquidity and cash management

- When **large fund flows occur**, it can be most **efficient** to "put the money to work" quickly via futures. This exposure can then be **scaled down** as individual securities are sourced.
- Employ available **un-invested** cash to get unfunded **exposure to market returns**.



Hedging purposes

- For a fund pursuing an **active selection** of bonds to **outperform** the market, **futures** can be used to temporarily **reduce market exposure** of a portfolio.
- Futures remove the need to pay **high bid/offer spreads** on bonds or run the **risk** of not being able to **buy back securities** when the need to reduce risk is over.

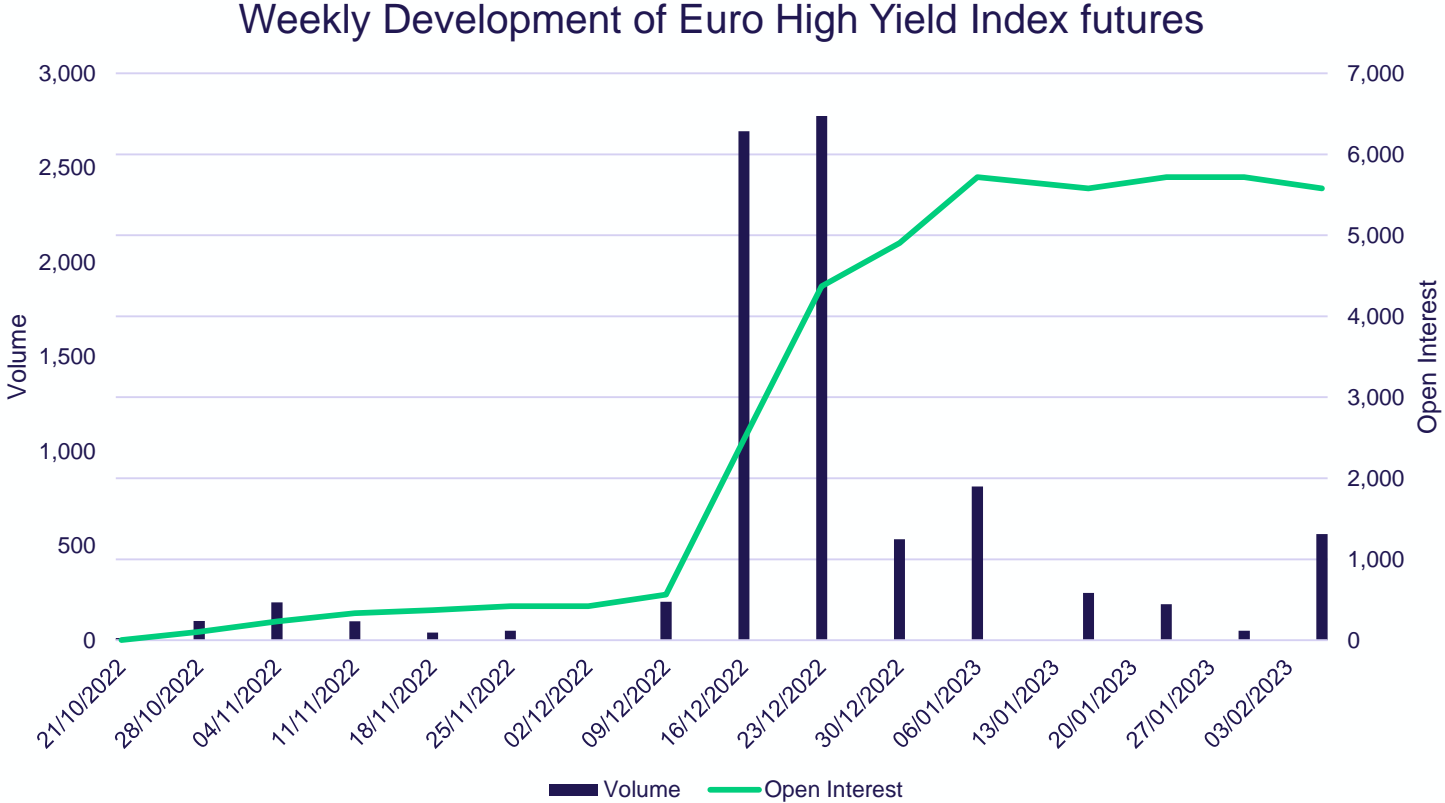


Portfolio overlay

- **Futures** can be used to **increase or reduce** market exposure in a portfolio, relative to its actual funded amount.
- **Synthetic replication** of an asset class, market or factor exposure.

Euro High Yield Index futures Volume and Open Interest Development

New Euro high Yield index futures performed strongly since launch, and now see close to €300 million in outstanding notional and ca. €460 mn in traded notional since launch in October 2022



Liquidity Provider picture

# of active LPs	CLOB	4
	Off-book	6

Overview of Trading Stats

- Total contracts since launch: **8,727**
- ADV since launch: 100 contracts
- Open Interest as of January 31th 2023: **5,580** contracts

Wholesale Offering

Euro High Yield Index Futures can also be traded **outside the order book** on a **bilateral basis**, and subsequently booked to Eurex Clearing through the use of our **Eurex T7 Entry Service**.

Block Trading

- Members are able to **enter bilaterally agreed off-book** transactions into the trading and clearing system. Registered off-book trades are then automatically cleared like regular exchange transactions.
- The Block Trade Entry facility is **fully electronic and integrated into members' processes** (the exchange defines a minimum number of contracts for a Block Trade – see below).

Basis Trading

- **Basis trading** can also be facilitated by the Exchange for Physicals - Index (EFP-I) functionality. An EFP-I **against an ETF or a basket of bonds** (the “Reference Instrument”) can be entered , subject to certain criteria regarding notional size and correlation.
- Furthermore, Euro High Yield Index Futures can themselves be used as a “Reference Instrument” for an EFP-Fin trade **against a government bond futures** trade.
- There are no minimum entry size restrictions for EFP.

Trade at index Close (TAIC)

- **Trade at index Close (TAIC)** allow counterparties to **agree in advance the price** at which to trade a future by applying a basis **on the respective index close**.
- As TAIC trades are entered as the EFP-Index, there are **no entry size restrictions**.

Minimum Entry Size for Block Trades

- Minimum block entry size: **100** contracts.
- There are **no minimum entry size restrictions for EFP**.

4 Liquidity Providers

Liquidity Providers

Liquidity Providers On-Screen

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Liquidity Providers Off-Screen

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Thank you!



6 Appendix

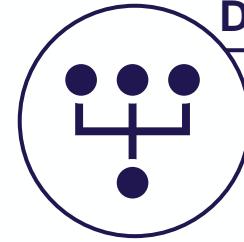


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History

- **47 years** as market pioneer and **leader in fixed income** benchmarks
- Serve a **wide range of applications** and benchmark users with **deep client relationships**



Distribution

- Benchmarks are **widely accessible** via market data redistributors and **portfolio analytics platforms**
- **Strong data** and wide scope of **analytics** and **custom index** solutions



Industry-wide adoption

- Over **US \$5 trillion AUM** benchmarked
- **#1 provider** of benchmarks for **Fixed Income ETFs**



Research & Product Expertise

- Full suite of **benchmark** and **strategy indices** (broad market beta to alpha strategies)
- Expertise with **alternative weighted indices** to provide diversification, value and income themes
- **Innovation** and thought leadership



Industry Recognition

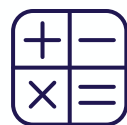
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- **Top index provider** by US Credit magazine **since 2004**

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- Access to 35 million instruments across all asset classes
- Rapid, real-time market data, key reference data and more with unmatched data normalization and intelligence



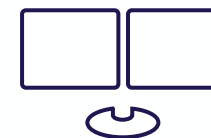
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- Portfolio Report Editor, PREP<GO>
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- Bloomberg Intelligence, BI<GO>

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