

# Bloomberg Commodity Index derivatives at Eurex Exchange

For many years, financial institutions have been trading and investing in commodities and commodity indexes for various reasons like inflation hedging, portfolio diversification or geopolitical developments. An overall decrease in commodity prices, as well as discussions on how far investments by financials influence commodity prices or volatilities has led to a reduction of activity of some banks in single or physical commodities. However, a lot of them are still trading broader commodity indexes.

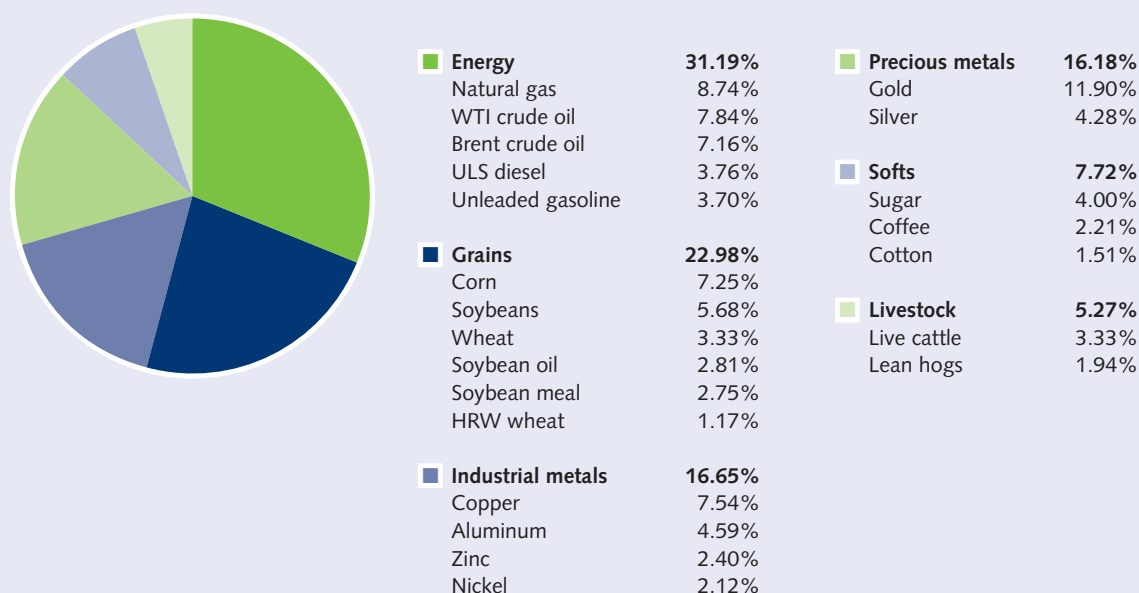
## The Bloomberg Commodity Index family – a highly liquid and diversified benchmark

The Bloomberg Commodity (BCOM) Index family is a leading index concept in the heterogeneous asset class of commodities. It has undergone some owner changes in the last few years, being called Dow Jones-AIG when it was launched in 1998, and thereafter the Dow Jones-UBS indexes until June 2014. What has not changed over time is the concept itself, which

uses production and liquidity data to select and weight the single commodity futures, which are the components of the index.

The broad Bloomberg Commodity Index currently includes 22 commodities as illustrated below. This weighting approach, which also uses certain caps per single component or sector, has made the index less dependent on energy than the competing S&P GSCI index.

The Bloomberg Commodity Index – target weights 2015



Further information on the BCOM index family can be found under [www.bloombergindexes.com](http://www.bloombergindexes.com)

Estimates place the amount of money currently linked to commodities (via ETCs, notes and index swaps) at approximately USD 250 billion, on par with 2008. A look behind the numbers reveals a large shift to exchange-traded products. Whereas ten years ago, zero percent was invested in exchange-traded products (as opposed to total return swaps), today the percentage invested in exchange-traded products now stands at almost 50 percent. This reflects the wider market trend from OTC into listed products.

## Trading at Eurex Exchange

Eurex Exchange has offered a family of derivatives on Bloomberg Commodity Indexes already since 2009. They allow to go long or short in the whole asset class or in certain sub-segments or to generate extra returns by using option strategies.

Product type	Eurex product ID	Underlying index	Product ISIN	Reuters code	Bloomberg code	BBG settlement index*
Option	OCCO	Bloomberg Commodity Index	DE000A0YK546	0#FCCO*.EX	BCOM index OMON	BCOMTL
Future	FCCO	Bloomberg Commodity Index	DE000A0YK504	0#FCCO:	FCOA index	BCOMTL
Future	FCAG	Bloomberg Agriculture Subindex	DE000A0YK512	0#FCAG:	FCDA index	BCOMTAG
Future	FCEN	Bloomberg Energy Subindex	DE000A0YK520	0#FCEN:	FCEA index	BCOMTEN
Future	FCGR	Bloomberg Grains Subindex	DE000A0YK6G7	0#FCGR:	UBRA index	BCOMTGR
Future	FCIN	Bloomberg Industrial Metals Subindex	DE000A0YK538	0#FCIN:	FCIA index	BCOMTIN
Future	FCLI	Bloomberg Livestock Subindex	DE000A0YK6F9	0#FCLI:	UBLA index	BCOMTLI
Future	FCPE	Bloomberg Petroleum Subindex	DE000A0YK6E2	0#FCPE:	UBOA index	BCOMTPE
Future	FCPR	Bloomberg Precious Metals Subindex	DE000A0YK6H5	0#FCPR:	UBPA index	BCOMTPM
Future	FCSO	Bloomberg Softs Subindex	DE000A0YK6J1	0#FCSO:	UBSA index	BCOMTSO
Future	FCXA	Bloomberg ex-Agriculture Subindex	DE000A1XRJ4	0#FCXA:	MFWA index	BCOMTXAG
Future	FCXB	Bloomberg ex-Agriculture & Livestock Subindex	DE000A1XRJK2	0#FCXB:	FCTA index	BCOMTXAL
Future	FCXE	Bloomberg ex-Energy Subindex	DE000A0YK6K9	0#FCXE:	UBEA index	BCOMTXE
Future	FCXR	Bloomberg ex-Grains Subindex	DE000A1XRJN6	0#FCXR:	FCRA index	BCOMTXGR
Future	FCXI	Bloomberg ex-Industrial Metals Subindex	DE000A1XRJH8	0#FCXI:	MFYA index	BCOMTXIM
Future	FCXL	Bloomberg ex-Livestock Subindex	DE000A1XRJM8	0#FCXL:	FCLA index	BCOMTXLI
Future	FCXT	Bloomberg ex-Petroleum Subindex	DE000A1XRJL0	0#FCXT:	KXTA index	BCOMTXPE
Future	FCXP	Bloomberg ex-Precious Metals Subindex	DE000A1XRJP1	0#FCXP:	MDWA index	BCOMTXPM
Future	FCXS	Bloomberg ex-Softs Subindex	DE000A1XRJQ9	0#FCXS:	FSCA index	BCOMTXSO

\* Since the final settlement price can differ from the index close on the last trading day (in cases of disruptions, see last page for further details), the settlement index levels are shown separately on Bloomberg.

## Contract specifications

	Futures	Options
Currency	USD	
Contract value	Contracts have a multiplier of USD 250.	
Last trading day	Last trading day is the third Friday of each maturity/expiration month if this is an exchange day; otherwise the exchange day immediately preceding that day.	
Final settlement price	The index closing level of the last trading day. If one or more components are not tradable that day (holiday, market disruption), the next tradable close price just for those components will be used instead (see last page for further details).	
Final settlement day	The final settlement day is five Eurex trading days after the last trading day, unless this day is already in the next calendar month. If that should be the case, the final settlement day is the last Eurex trading day of the expiry month. The five day buffer is used to make sure that in case of market disruptions or holidays only tradable close prices are used in the final settlement price.	
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 three nearest calendar month, three successive quarterly months of the March, June, September and December cycle thereafter, the four following semi-annual months of the June and December cycle thereafter, and the two following annual months of the December cycle thereafter.	

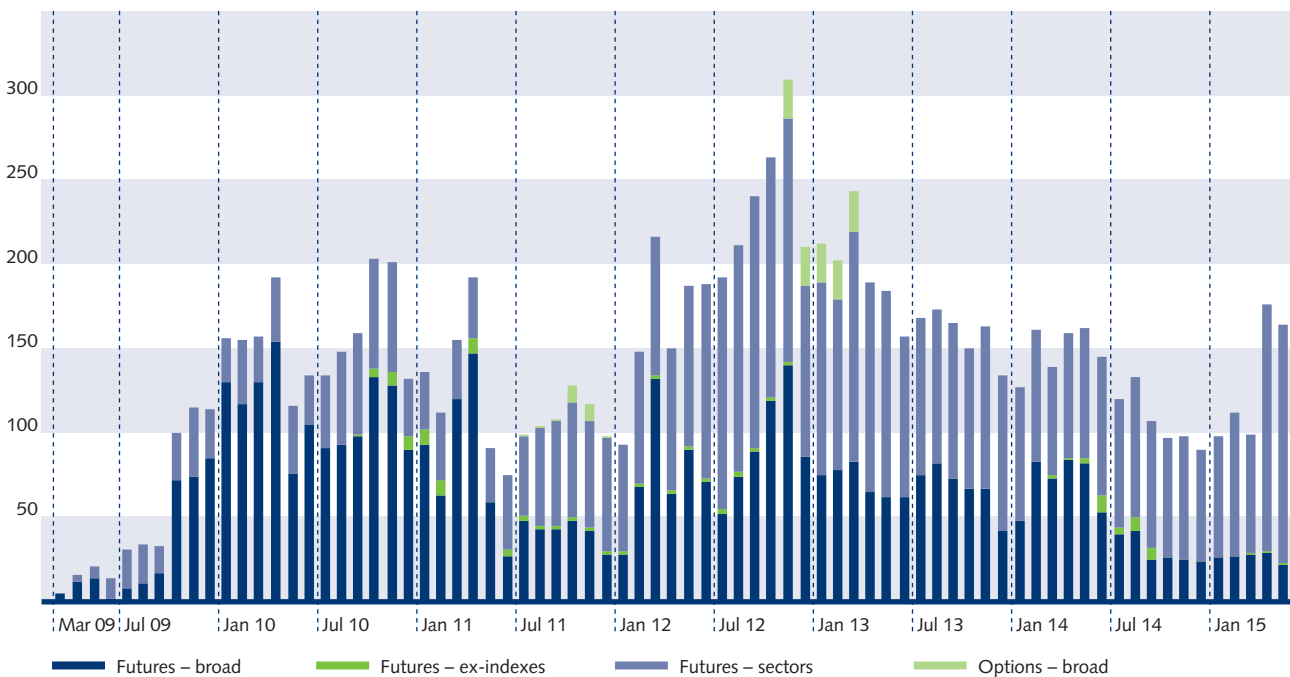
### Contract specifications

	Futures	Options
Exercise	–	European-style
Exercise price intervals in USD	–	< 12 months: 5 > 12 months: 10
Trading hours	09:00–18:00 CET	09:00–18:00 CET
Eurex Trade Entry Services	09:00–21:30 CET	09:00–20:30 CET
Minimum block trade size	50 contracts	1 contract

Trading or investing in Eurex Exchange's commodity index derivatives offers a number of benefits in comparison to products like swaps or ETCs:

- Elimination of counterparty risk
- The futures are based on excess return indexes rather than total return, thus enabling investors the opportunity 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 offer block trades, which also enable you to “trade at close”.
- 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.

### Month-end open interest (in notional terms/in mn EUR) in Bloomberg Index derivatives at Eurex Exchange (March 2009 – 2015)



The following Market Makers are permanently quoting the futures, but can be also contacted for block trades:

Company	Contact person	Phone
Flow Traders	Marc Jansen	T +31-2-0799-8620
Unicredit	Daniel Becker	T +49-89-3781-5094

### Bloomberg Commodity Index Options

Whereas a majority of delta 1 trading (i.e. in futures, 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 BCOM 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, also allowing additional market participants to join.

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.

One- and two-month expiries were recently added as most of option trading in the OTC space takes place at the shorter end.

### Settlement procedure for Bloomberg Commodity Index Futures and Options

Recently, Eurex Exchange has made a change to the contract specifications of the BCOM derivatives, bringing them more in line with the equity and equity index derivatives by using the third Fridays index close as the final settlement price.

Nevertheless, the final settlement day will be five Eurex exchange days later, 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 as final settlement prices for Eurex derivatives.

On the other hand, the exchange needs to define the final settlement price until the final settlement day. Therefore, the final settlement prices (i.e. the index close) are fixed already some days before 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 four days in a row would not create any issues. Should it take longer, adjustment payments will be made manually, to ensure that even in this rare scenario only traded close prices are included in the final settlement price.

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