

12/2022

Fixed income futures roll analysis – December 2022

Management Summary

The roll activity in the Fixed Income Futures suite started slower than in September and June, before accelerating in the 6 days before expiry.

The cheapest-to-deliver bonds (CTD) changed during the roll period from December 2022 to March 2023 for the contracts FGBS, FGBM, FGBL and FBTP. All contracts saw a slight decrease in duration after the change, reflecting the rising yield environment as well as higher discount rates favoring lower duration CTDs.

In terms of volumes, the front end continues to outperform compared to last year, while the ultra-long end saw reduced volumes. Overall rolled volumes were higher than in the Dec 2021 roll.

The number of deliveries was back up to the average historical levels after being subdued for the last two expiries.

Key takeaways / Messages from the roll analysis?



CTD Changes in FGBL, FGBM, FGBS and FBTP

Higher interest rates and the issuance of bonds with higher coupons, led to duration decreases in the back month expiry. All new back month CTDs have higher coupons than the front month contracts.



Roll activity was in line with historical observations

The roll activity in Dec 2022 started later than in September but was in line with historical patterns. Delivery was higher than the previous roll, a return to the historical norm. Most deliveries took place on the short end, reflecting increased activity in this tenor.



Spreads remained stable amidst rising rates

The width of quoted spreads in the calendar spreads for fixed income futures remained stable despite the turbulent market environment.

CTD roll table for core FI futures

	FGBL	FGBM	FGBS
Dec CTD	DBR 0 08/15/31	DBR 0 1/2 08/15/27	BKO 0.4 09/13/24
Contract Duration	11.55	5.39	2.03
Mar CTD	DBR 1.7 08/15/32	OBL 1.3 10/15/27	BKO 2.2 12/12/24
Contract Duration	10.86	5.15	2.00
CTD Change	Yes	Yes	Yes
Duration Ratio	1.06	1.05	1.02
	FGBX	FBTP	FOAT
Dec CTD	DBR 1 1/4 08/15/48	BTPS 2 1/2 12/01/32	FRTR 2 11/25/32
Contract Duration	33.68	9.31	11.12
Mar CTD	DBR 1 1/4 08/15/48	BTPS 4.4 05/01/33	FRTR 2 11/25/32
Contract Duration	28.59	8.31	10.29
CTD Change	No	Yes	No
Duration Ratio	1.18	1.12	1.08

CTDs of core German products change between expiries

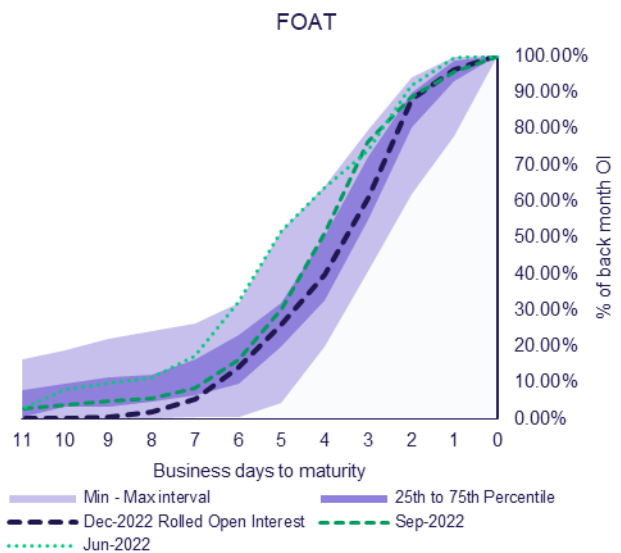
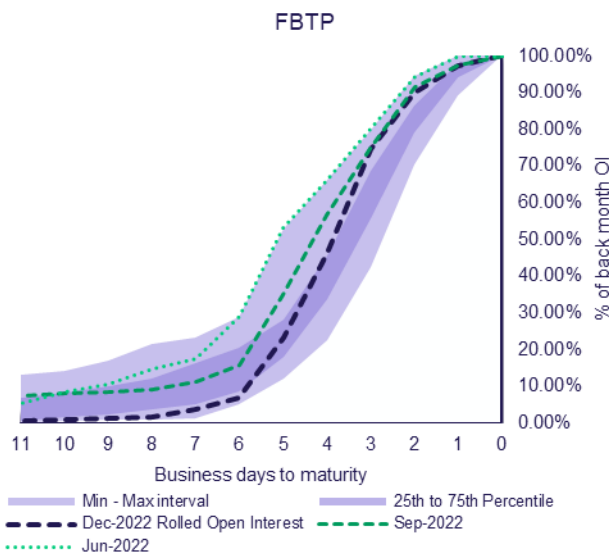
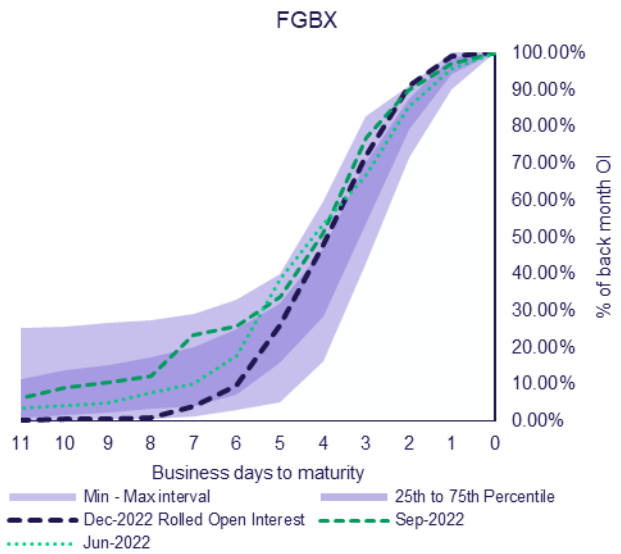
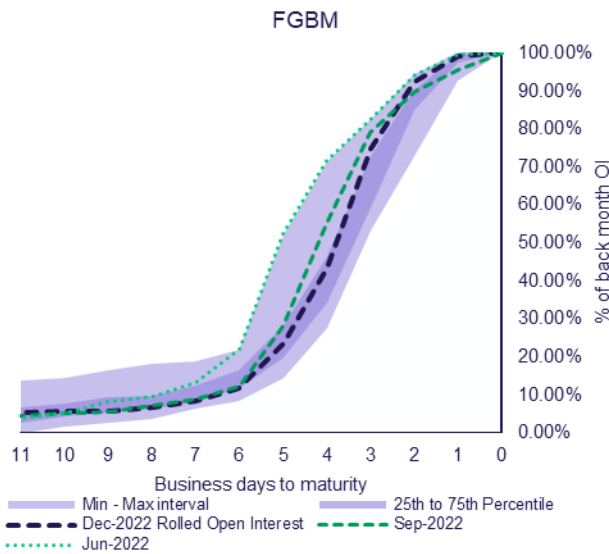
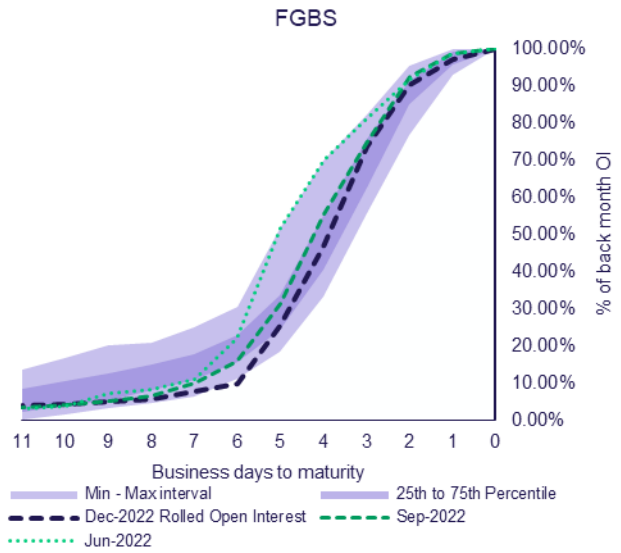
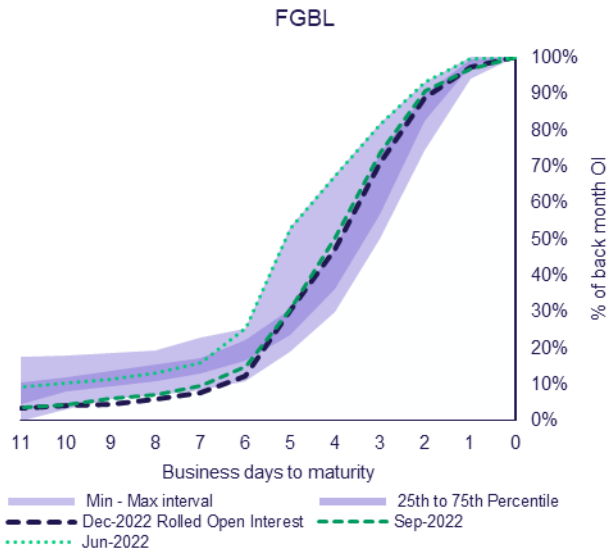
After seeing high volatility throughout the year, fixed income volumes subsided in Q4 including the December 2022 roll. In the first half of this year, we have seen large moves in the underlying bond markets and high two-way intraday volatility inducing some front month CTD switches going into the June expiry. Into the December roll, measures were taken by national DMOs to reduce the risk of new EGBs becoming CTD. After reaching highs of 18% this year, Bund implied volatility currently at c. 10% has been within a tight range for November – December 2022.

Compared to the September 2022 and June 2022 rolls, activity started closer to expiry in December, having a slower start than most rolls since 2014. Shifting open interest into the back month picked up speed only 5 days out. This is observable mostly in Bund (FGBL) and Schatz (FGBS) futures which, on certain days, saw the slowest start to a roll when considering all observations since 2014 (see pace of roll charts below).

For March '23 expiries, CTDs changed for the core German segment, i.e., 10yr Bund (FGBL), 5yr Bobl (FGBM) and 2yr Schatz (FGBS), and 10yr BTP futures (FBTP). 30yr Buxl (FGBX) and 10yr OAT futures (FOAT) did not witness a CTD change. All CTD changes resulted in lower duration bonds with higher coupons being CTDs, reflecting the rising yield environment as well as higher discount rates favoring lower duration.



Pace of Roll per product



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Trading volumes during the roll period (last 8 days before expiry)

In addition to the rolling over of contracts, we saw significant activity in the outright markets. Aggregated trading volumes across expiries during the roll days grew by 9% YoY for all contracts combined. The highest increase was observed in Schatz futures which had trading volume increase by 51.7% YoY.

In terms of deliveries, Schatz (with 34k) and Bund (with 11k) futures saw a higher number of contracts being delivered again, after having lower delivery numbers throughout the year. In Bobls, participants decreased the number of contracts going to delivery to 10.5k, down from 30k in September. The highest number of deliveries were witnessed for short term BTP futures at 37k contracts delivered across three different bonds. For more information on the delivery, please see [here](#).

Trading volumes during the roll period for core contracts						
	FGBX	FGBL	FGBM	FGBS	FBTP	FOAT
4Q22 (MIn)	1.12	11.47	9.84	9.17	2.45	2.81
4Q21 (MIn)	1.71	11.23	9.12	6.04	2.25	3.21
% YoY	-34.6%	2.1%	7.9%	51.7%	8.7%	-12.6%
3Q22 (MIn)	1.53	12.14	11.09	13.08	2.54	3.67
% QoQ	-27.1%	-5.5%	-11.2%	-29.9%	-3.6%	-23.4%

Calendar Spreads decreased slightly during the roll

Calendar Spreads remained stable throughout the roll period. Based on the daily settlement prices, calendar spreads widened starting on Dec 1st up until Dec 5th, before narrowing again during the 3 days before the last trading day.

All fixed income futures were in backwardation. German products experienced the lowest differential between front month and back month, with Schatz having the lowest (0.22), followed by Bunds (0.44), Bobls (1.15) and Buxl (1.18) at almost the same level. The highest differential was in BTP futures (3.39), followed by OATs (1.25).

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