# Eurex Inter-Product Spreads in Fixed Income Futures

Eurex now offers Inter-Product-Spread-Strategies (IPS) for fixed income futures as a standardized futures product. Inter-Product-Spread-Strategies are strategies used to create exposure to changes in flatness and steepness of the yield curve, such as a Bund-Buxl spread or spreads between European government bond futures such as the BTP-Bund spread.

In standardizing these spreads into a dedicated order book, Eurex creates a duration neutral (DV01 neutral) trading opportunity by using appropriate leg ratios. As the spread is traded in a single transaction, it also eliminates legging risk and saves bid-ask spread costs. Once the IPS is processed, positions in the individual legs are created and can be traded out in their respective order books.

### Trading the government bond yield curve

- The yield curve for German government bond debt has changed its slope and shape over the course of time.
- Starting with a flattish structure in 2006, the steepness of the yield curve increased when the ECB reduced short-term rates in the wake of the financial crisis.
- Buy-side investors and proprietary trading firms actively trade these price relationships and moves.
- An IPS will let them anticipate yield changes at various points of the yield curve or hedge against a parallel shift of the yield curve, all without any legging risk.

### Trading the sovereign yield spread

- In the early 2000s, the yields of Eurozone currency members' sovereign debt converged to German yield levels.
- The financial crisis accentuated the divergence of valuations and credit worthiness as European sovereign debt issuers differed in the response to the subprime crisis.
- An IPS allows investors to trade the spread between government bond futures of different countries in a delta (DV01) neutral fashion in a dedicated order book, without any legging risk.

### Contracts and ratios

From 16 September 2019, the following Fixed Income Futures combinations are available as Eurex Inter-Product Spreads:

| Inter-Product Spread Strategy | Instrument name | DV01 neutral leg ratio | IPS ratio of leg instruments |
|---|---|---|---|
| Bund-Buxl Spread | IPLX | 2.68 | 5 : 2 |
| Long-term BTP-Bund Spread | IPPL | 1.50 | 3 : 2 |
| Schatz-Short-term BTP Spread | IPS2 | 1.05 | 1 : 1 |

The above IPS leg ratios are valid for the December 2019 expiry. Final ratios will always be confirmed before each new expiry starts trading.

## Key benefits

**Spread trading opportunities**
IPS allows for trading of the government yield curve or the sovereign yield spread and enables investors to take a view on spreads widening or tightening.

**Operational efficiency with less risk**
By trading the Eurex IPS as a single trade, investors remove the legging risk involved when the transactions are done separately. It also improves daily operational procedures and reduces spread costs by reducing the number of trades required to trade the spread between government bond futures.

**Dedicated order book, full fungibility**
IPS will be quoted and traded in a separate public order book. The components of the two-legged product however are processed for clearing and reporting as individual futures legs. The fully fungible futures legs can be traded out separately in their outright order books.

**DV01 neutrality**
The leg ratio of IPS is determined from expiry to expiry to ensure the forward DV01 neutrality of the spread. The ratio will be determined shortly before the next new IPS contract becomes available and published via the Newsboard and on **www.eurexchange.com** prior to their respective first day of trading.

**Market Making scheme**
A Market Maker scheme is available to ensure liquidity in the product.


**For further information, please contact:**

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