

INTEREST RATE PRODUCTS

30-Day Federal Funds Futures and Options

Overview

The 30-Day Fed Funds futures and options contracts are important risk management tools for anyone who wants to hedge against, or speculate on changes, in short-term interest rates brought about by changes in Federal Reserve monetary policy. Fed Funds futures provide trading opportunities and resources for the management of risk exposures associated with a variety of money market interest rates. Options on Fed Funds futures offer market participants an instrument with defined risk parameters that can be used to express a view on the likelihood of Fed policy changes. Together these products serve a wide spectrum of users and uses.

About the Contracts

The Fed Funds futures contract represents the average daily fed funds effective rate for a given calendar month as calculated and reported by the Federal Reserve Bank of New York. It is designed to capture the market's need for an instrument that reflects Federal Reserve monetary policy. Because the Fed Funds futures contract is based on the effective overnight fed funds rate for a given month, it tends to be highly correlated with other short-term interest rates and is useful for managing the risk associated with changing credit costs for virtually any short-term cash instrument.

Fed Funds futures and options have long been regarded as an effective means of tracking market expectations of monetary action by the Federal Open Market Committee (FOMC). Perhaps no single financial policy carries more weight than the fed funds target rate. Consequently, in the weeks preceding an FOMC meeting, the Fed Funds futures and options contracts attract attention from all corners of the financial world.

Fed Funds futures can be used either speculatively to anticipate changes in monetary policy, or more conservatively to hedge inventory financing risk across many different markets. Fed Funds options make possible a wide range of trading strategies well suited to expressing a variety of market opinions. In addition, Fed Funds futures and options create many spreading opportunities with other interest rate products, including Eurodollar futures and options.

Benefits

- Provide a gauge of market expectations about Fed action at future FOMC meetings
- Offer liquid tools to speculate on or hedge against changes in monetary policy
- Allow spreading against other short-term interest rate contracts in the CME Group suite of interest rate futures and options
- Offer trading in transparent markets with low transaction costs and virtual elimination of counterparty credit risk

Market Participants

- **Proprietary traders and hedge fund managers:** To express opinions about shifts in U.S. Federal Reserve monetary policy. Traders can also use these futures to make a variety of relative value trades
- **Fixed-income portfolio managers:** To hedge stub risk (the risk that arises because of a date mismatch between the underlying and the hedge instrument), or to protect against adverse shifts in overnight funding rates
- **Bank treasury officers:** To protect against shifts in other short-term interest rate markets

30-DAY FEDERAL FUNDS FUTURES AND OPTIONS CONTRACT SPECIFICATIONS

30-DAY FEDERAL FUNDS FUTURES	
Underlying Instrument	Interest on Fed Funds having a face value of \$5,000,000 for one month calculated on a 30-day basis at a rate equal to the average overnight Fed Funds rate for the contract month
Contract Size	\$5 million
Price Quote	100 minus the average daily Fed Funds overnight rate for the delivery month (e.g., a 7.25 percent rate equals 92.75)
Tick Size	Nearest month: one-quarter of one basis point (0.0025) or \$10.4175 per contract (1/4 of 1/100 of one percent of \$5 million on a 30-dat basis rounded up to the nearest cent) All other contract months: One-half of one basis point (0.005), or \$20.835 per contract
Contract Months	First 24 calendar months
Last Trading Day	Last business day of the delivery month. Trading in expiring contracts closes at 4:00 p.m. Central Time (CT) on the last trading day
Final Settlement	Expiring contracts are cash settled against the average daily Fed Funds overnight rate for the delivery month, rounded to the nearest one-tenth of one basis point. Final settlement occurs on the first business day following the last trading day. The daily Fed Funds overnight rate is calculated and reported by the Federal Reserve Bank of New York
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m. CT, Monday – Friday CME Globex: 5:30 p.m. – 4:00 p.m. CT, Sunday – Friday
Ticker Symbols	Open Outcry: FF CME Globex: ZQ
OPTIONS ON 30-DAY FEDERAL FUNDS FUTURES	
Underlying Instrument	The 30-Day Fed Fund futures contract with the same named month of expiry
Tick Size	One-quarter of one basis point (0.0025), or \$10.4175 per contract
Strike Price Interval	Strike prices will be listed in multiples of 6.25 basis points (0.0625) and 12.5 basis points (0.1250) Strike prices in increments of 6.25 basis points: the at-the-money strike price closest to the current futures price plus the next ten consecutive higher and the next ten consecutive lower strike prices Strike prices in increments of 12.5 basis points: Above and below the 6.25-basis-point-band, the next five (5) consecutive higher and the next five (5) consecutive lower strike prices in increments of 12.5 basis points
Contract Months	First 24 calendar months
Last Trading Day	Options cease trading on the last business day of the underlying contract month. Options cease trading at the close of the regular CME Globex trading session for the underlying 30-Day Fed Funds futures contract
Exercise	The buyer of a futures option may exercise on any business day up to and including the day such option expires, by giving notice of exercise by 6:00 p.m. CT, to CME Clearing. All in-the-money options shall be automatically exercised after 6:00 p.m. CT on the business day following the last day of trading unless notice to cancel automatic exercise is given to CME Clearing
Expiration	Unexercised options on 30-Day Fed Funds futures shall expire at 7:00 p.m. CT on the next business day following the last day of trading
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m. CT, Monday – Friday CME Globex: 5:30 p.m. – 4:00 p.m. CT, Sunday – Friday
Ticker Symbols	Open Outcry: FFC for calls/FFP for puts CME Globex: OZQ

For information on 30-Day Federal Funds futures and options, visit www.cmegroup.com.

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