

INTEREST RATE PRODUCTS

# 3-Month OIS and Eurodollar Options: A Conditional Spread Trade

New 3-Month OIS options can be used in combination with Eurodollar options to create conditional spread trades that allow you to express market views about the OIS-LIBOR spread. Four basic strategies can be constructed that are similar to the conditional curve trades that spread quarterly Eurodollar options against midcurve options.

As in conditional quarterly vs. midcurve trades, if the market goes against you the trade goes away, in other words, it's conditional on your view. However, anyone experienced with conditional curve trades knows that if volatility goes against you, all bets are off. So implicit in any strategy is a view of the relative volatility of OIS options vs. ED options. Nonetheless, the two options can be used to construct some unique trades.

First, you need to have a view about the future direction of OIS and LIBOR rates. Will these rates rise or will they fall? Second, what will happen to the spread implied by the OIS and Eurodollar contracts – will this spread widen or will it narrow?

**If you expect:**

1. Overall rates to rise (market sells off) and the OIS-LIBOR spread to widen, buy ED puts and sell OIS puts.
2. Overall rates to rise and the OIS-LIBOR spread to narrow, buy OIS puts and sell ED puts.
3. Overall rates to fall (market rallies) and the OIS-LIBOR spread to widen, buy OIS calls and sell ED calls.
4. Overall rates to fall and the OIS-LIBOR spread to narrow, buy ED calls and sell OIS calls.

<b>STRATEGY MATRIX</b>		<b>SPREAD WIDENS</b>	
		Buy ED puts and Sell OIS puts	Buy OIS calls and Sell ED calls
<b>MARKET SELLS OFF</b> (Rates Rise)	Buy OIS puts and Sell ED puts	Buy ED calls and Sell OIS calls	<b>MARKET RALLIES</b> (Rates Fall)
	<b>SPREAD NARROWS</b>		

**Matching Expirations**

Since the OIS contract is “backward looking” and the Eurodollar contract is “forward looking”, synthetic spreads constructed with these futures contracts must be staggered to correctly match the term of the interest rate exposure of the underlying futures contracts (e.g., June OIS futures must be paired with March Eurodollar futures). Since the OIS option looks like a midcurve in the sense that it’s a shorter-dated option on the longer-dated futures, you match Dec ED options with Dec OIS options:

- Dec ED option underlying is Dec ED futures
- Dec OIS options underlying is Mar OIS futures due to backward looking nature of the contract
- Appropriate futures spread trade would be Mar 09 OIS vs. Dec 08 ED to match the terms of interest rate exposure
- Appropriate options spread trade would be Dec ED option vs. Dec OIS option to match terms of interest rate exposure

For more information on 3-Month OIS and Eurodollar options, visit [www.cmegroup.com/interestrates](http://www.cmegroup.com/interestrates), or contact:

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# OPTIONS ON 3-MONTH OVERNIGHT INDEX SWAP (OIS) FUTURES

FUTURES	
Contract Size	One (1) 3-Month OIS futures contract of a specified delivery month.
Tick Size	Nearby quarterly (when underlying futures trades in quarter ticks): One-quarter of one basis point (bp) (0.0025), or \$6.25 per contract. All others: One-half of one bp (0.005), or \$12.50 per contract. First two serials and quarterlies: One-quarter of one bp (0.0025), or \$6.25 per contract, provided that the total premium of the outright or spread combination is five bps or less. Hedging rules apply.
Strike Price Intervals	Strike prices will be listed in intervals of 12.5 (0.125) and 25 (0.25) bps. At the commencement of trading, the following strikes in intervals of 25 bps shall be listed: one with a strike price closest to the previous day's settlement price of the underlying 3-Month OIS futures contract and the next 22 consecutive higher and the next 22 consecutive lower strike prices closest to the previous day's settlement price. If a previous day's settlement price is midway between two strike prices, the closest price shall be the larger of the two. In addition, the following strikes in intervals of 12.5 bps shall be listed: the next 12 consecutive higher and the next 12 consecutive lower strike prices that bracket the at-the-money strike price.
Contract Months	Two serial expiries plus four consecutive expiries in the March, June, September and December quarter cycle. For example: October, November and December options exercise into March futures; January, February and March options exercise into June futures; April, May and June options exercise into September futures; and July, August and September options exercise into December futures.
Last Trading Day	The Friday before the third Wednesday of the option contract month. Trading in expiring contracts ceases at 4:00 p.m. Central time (CT) on the last trade date. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday.
Exercise	American-style. The buyer of an option may exercise into an underlying futures position on any business day up to and including the day such option expires, by giving notice of exercise by 7:00 p.m. CT to CME Clearing. All in-the-money options shall be automatically exercised after 7:00 p.m. CT on the last trading day unless notice to cancel automatic exercise is given to the Clearing House. Exercise, whether voluntary or automatic, is determined in relation to the daily settlement price of the underlying futures price at 2:00 p.m. CT.
Expiration	Unexercised options shall expire at 7:00 p.m. CT on the last trade date.
Trading Hours	CME Globex: 5:00 p.m. – 4:00 p.m. CT, Sunday – Friday Open Outcry: 7:20 a.m. – 2:00 p.m. CT, Monday – Friday
Ticker Symbols	CME Globex: OSS Open Outcry: OSP Bloomberg: FLA
Daily Price Limit	None
Position Accountability/ Reportable Limits	10,000 contracts on futures-equivalent basis/50 option contracts.

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All references to options refer to options on futures.

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