Questions from Foundational Principles: STIRs futures

1. **Are SOFR settles similar to FedFunds futures?**

   SR1 settles like FedFunds futures. They both settle to an average of their respective reference rate for the calendar month of the contract. It is based on actual day count. Friday's rate applies to Saturday and Sunday dates. SR3 settles differently. Its final settlement value is based on the daily compounding of the days SOFR is reported by the Fed. It begins its compounding calculation with the SOFR rate from the third Wednesday of the quarterly contract's month and goes to, and includes, the Tuesday that precedes the third Wednesday of the following quarterly contract month.

2. **Why does the convex relationship on interest rates accelerates (price) as the yield increases or decreases?**

   For a better understanding of bond convexity, access a textbook like Frank Fabozzi's "Fixed Income Securities."

3. **What happens to the bundle and pack when a month drops off?**

   Packs and Bundles are identified by the color-coding scheme developed years ago by the Chicago Mercantile Exchange. A Pack consists of four consecutive quarterly contracts and a Bundle consist of additional consecutive four quarterly contracts. They are generally quoted by their 'annualized' configuration based on current front month designations. For example, as of this writing 24 February 2021, March 2021 is the front month Eurodollar futures contract. The next three quarterlies (June 2021, Sep 2021, and Dec 2021) together with March 2021 make up the Front or White Pack. The next four quarterlies (Mar, Jun. Sep, Dec 2022) make up the Red Pack. If I were to combine them (White Pack + Red Pack) I would have a Red Bundle. When March 2021 rolls off all the quarterlies roll forward and a new March 2031 contract gets listed. The White Pack then becomes Jun 21, Sep 21, Dec 21, and Mar 22. All the quarterlies roll forward one location on the curve as a contract rolls off and a new one gets listed.

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