Practical Applications: Equity Index Futures Webinar – Part 2

FREQUENTLY ASKED QUESTIONS

Q: Can you perform cash equalization with options in the same way as you showed for futures?

A: Not effectively. Options have a fixed strike price. If the option expires worthless, it adds no value.

Q: Doesn't the carry null the interest rates generated?

A: Carry reflects the time value of money generated by the asset versus the futures. If there is positive carry in Equity Index futures, they trade at a discount. While there is no income generated, the discounted futures price converges to spot at expiration. If long the futures, there is a slight benefit. If short the futures, a slight cost.

Q: Does the basis convergence happen in a linear fashion or is it like an options theta decay curve (accelerates as we approach expiry)?

A: It is not linear, but it is fairly predictable under normal conditions.

Q: Is BTIC only used intraday?

A: BTIC is strictly intraday. BTIC+ allows for interday locking of the basis spread.

Q: Since these operate similar to TAS contracts, is there a limit/up/limit down value on BTIC futures? (Like HG Copper can trade TAS +/- 10 ticks)

A: BTIC is the basis spread negotiated in the market on Globex. The final futures position settlement price is a combination of the underlying spot index (e.g. S&P 500 Index) plus/minus the basis spread.

Q: Can you trade BTIC and TACO that settle into deferred month futures or only front month?

A: Yes.

Q: For BTIC and TACO trades, are there always counterparties available? And what are there incentives?

A: If the quoted market is thin, CME Group has liquidity providers prepared to make markets. See cmegroup.com for a list of liquidity and block trading partners.

Q: Could one replicate a cash index position by purchasing an index future and a dividend index futures contract?

A: They are two different but related topics. Index futures trade to an underlying spot equity index trade based on the spot index and carry differential. Dividend Futures also trade to an underlying spot index, but trade as index points. It isn't as simple as putting them together.

Q: S&P 500 Dividend Futures is there any risk in this product, or do you always just get dividends?

A: You don't receive any dividend or payment at all. Dividend futures settle to cash. This means at expiration, the futures settle to an index value (established by S&P DJI). Any price difference from previous day is credited/debited in cash. Therefore, there is a risk of loss due to an adverse price movement in the futures price and/or final settlement value.

Q: Why wouldn't asset managers indexed to the S&P always use the total return version?

A: They may be benchmarked to the S&P 500 Index rather than the S&P 500 Total Return Index. Depends on their investment guidelines and structure.

Q: Are there futures contracts on the absolute level of dividends (so not on the yield, but the actual amount paid)?

A: Not to my knowledge. Certainly not at CME Group.

Q: For AIR TRF, any consideration to changing EFFR to SOFR?

A: Given the shift toward SOFR as the preferred benchmark reference rate in USD, it is a very good possibility. At present, there is no plan to change from EFFR.

Q: Can we use another futures product for Cash Equitization? For example, Natural Gas or Crude Oil?

A: Not for equity cash equitization. But futures can be used to replicate exposure to commodity price risk, like NG and crude.

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