

High Yield Index Futures

As of 17 October 2022, Eurex offers market participants the opportunity to hedge and take synthetic exposure to the Euro-denominated high yield corporate bond market in Europe.

INNOVATING THE LISTED EUROPEAN CREDIT ECOSYSTEM

Volatility in the Euro high yield segment soared as Europe is gradually exiting a decade of ultra-low rates environment. Inflationary pressures leading to higher borrowing costs have caused EUR HY credit spreads to widen in 2022, as financing conditions are not as favourable anymore. **The surge in volatility** and a higher perceived risk for the future have **increased the need for hedging** by market participants invested in this asset class.

To leverage established benchmarks that Eurex customers are already familiar with, Eurex's new Euro High Yield Index Futures will be based on the **Bloomberg Liquidity Screened Euro High Yield Bond Index**.

These **standardized, exchange-traded contracts** utilize a simple derivative structure widely used in the equity index futures market. The versatile nature of these futures will enable investors to **hedge their Euro high yield corporate bond portfolios** or **take additional exposure** via an index-linked product, which broadly represents this market.

What are the key benefits?



Liquidity and cash management

When large fund inflows occur, it can be most efficient to take exposure to the benchmark index returns **utilizing the available** cash via futures. Employ available un-invested cash to get **unfunded exposure** to market returns.



Hedging purposes

For a fund pursuing an active selection of bonds aimed to **outperform** the market, futures can be used to temporarily **reduce market exposure** of a portfolio. Futures remove the need to pay **high bid/offer spreads** on bonds or run the risk of not being able to buy back securities when the need to reduce risk is over.



Portfolio overlay

Futures can be used to **increase or reduce** market exposure in a portfolio, relative to its actual funded amount.

KEY FEATURES

- The new Euro High Yield Index future is a **cash settled future** on a Bloomberg **Total Return Index** denominated in Euro.
- From a risk factor perspective, the product is a **plain vanilla product** as an index future on a Bloomberg benchmark index.
- A hybrid model of trading with a number of committed on-screen market makers supplemented by substantial off-screen liquidity.
- The product will be included in the corporate bond liquidation group and will therefore offer **cross-margining opportunities** vs the Euro Corporate SRI Index futures.

Index: Bloomberg Liquidity Screened Euro High Yield Total Return Index Value Unhedged EUR (BEHLTREU Index)

Index methodology

High Yield Euro-denominated corporate bond universe satisfying the criteria below:

- Between 1 year and 15 years until final maturity
- EUR-denominated
- Below Investment grade (rating between BB+ and CCC-)
- Minimum amount outstanding of EUR 350 million
- Fixed Coupon

Index Statistics*

| | |
|---------------------------|-------------|
| Components | 550 |
| Market value | EUR 282.6bn |
| Amount outstanding | EUR 314.8bn |
| Average coupon | 3.50 |
| Average maturity | 4.11 |
| Average duration | 3.73 |
| Rating | BA3 / B1 |

* Values sourced from Bloomberg Finance LLP at the time of publication

BLOCK TRADE SERVICE

Eurex Euro High Yield Index Futures can also be traded outside the order book on a bilateral basis, and subsequently booked to Eurex Clearing through the use of our Eurex T7 Entry Service.

- Members can enter bilaterally agreed off-book transactions into the trading and clearing system. Registered off-book trades are then automatically cleared like regular exchange transactions.
- The Block Trade Entry facility is fully electronic and integrated into members' processes (the exchange defines a minimum number of contracts for a Block Trade – see specification below).

BASIS TRADING

- Basis trading can also be facilitated by the Exchange for Physicals-Index (EFP-I) functionality. An EFP-I of a Euro HY Index future against an ETF or a basket of bonds (the "Reference Instrument") can be entered, subject to certain criteria regarding notional size and correlation.
- Furthermore, Euro High Yield Index Futures can themselves be used as the "Reference Instrument" for an EFP-Fin trade against a government bond futures trade. In that scenario the government bond futures leg can be below the minimum entry size threshold.
- There is a reduced minimum entry size threshold for EFP. Regulatory LIS limits may still apply.
- The Trade-at-Index-Close (TAIC) TES functionality is also available. TAIC allows counterparties to agree in advance the price at which to trade a future by applying a basis on the respective index close. TAIC trades are entered as an EFP-Index, there are no minimum entry size restrictions.



Contract specifications

| Eurex Fixed Income Euro High Yield Future | |
|---|--|
| Contract standard | Futures on Bloomberg Liquidity Screened Euro High Yield Total Return Index Value Unhedged EUR |
| Eurex product code | FEHY |
| Contract value | EUR 200 per index point (index trades currently at EUR 251.00 index points) |
| Price quotation: tick size/tick value | In points with two decimal places / 0.02 Points = EUR 4 |
| Trading hours | 8:00 a.m. to 7:00 p.m. CET |
| Contract months | The three nearest quarterly months of the March, June, September, and December cycle. |
| Last trading day/final settlement day | Third Friday of each maturity month if this is an exchange day; otherwise the exchange day immediately preceding that day. Close of trading in the maturing futures on the last trading day is 17:15 CET. Final settlement day is the exchange day immediately following the last trading day. |
| Final settlement price | The final settlement price is established by Eurex on the final settlement day of the contract and is based on the closing price of the index (total return, EUR) on the last trading day. |
| Daily settlement price | Determined from the volume weighted average of all transactions during the minute before 17:15 CET (reference point), provided that more than 5 trades transacted within this period. |
| Settlement | Cash settlement, payable on the first exchange day following the expiration day. |
| Minimum block trade threshold | 100 contracts |
| Bloomberg code | AHWA <Index> |
| Reuters / Refinitiv code | 0#FEHY: |

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