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THREE & TEN YEAR INTER-COMMODITY TREASURY BOND ROLL - JUNE 2001

To facilitate the transition between contracts, an Inter-Commodity spread market has been provided. To assist in the transition, and in the use of the Inter-Commodity spread facility between the 12% to 6% nominal Coupon, the following explanations and examples are given.

The following are the Inter-Commodity spreads provided to facilitate the Three and Ten Year Treasury Bond Roll between the 12% and 6% Coupon.

1. **YBM1YTU11011** - This Inter-Commodity Spread allows the user to trade the Roll market between the 12% nominal Coupon YBM1 contract and the 6% nominal Coupon YTU1 contract at a ratio of 10 – 11.

An entry of an order to buy 1 lot in the Inter-Commodity spread market results in the following order:
Buy 11 YTU1 and Sell 10 YBM1.

An entry of an order to sell 1 lot in the Inter-Commodity spread market results in the following order:
Sell 11 YTU1 and Buy 10 YBM1.

2. **XBM1XTU11013** - This Inter-Commodity Spread allows the user to trade the Roll market between the 12% nominal Coupon XBM1 contract and the 6% nominal Coupon XTU1 contract at a ratio of 10 – 13.

An entry of an order to buy 1 lot in the Inter-Commodity spread market results in the following order:
Buy 13 XTU1 and Sell 10 XBM1.

An entry of an order to sell 1 lot in the Inter-Commodity spread market results in the following order:
Sell 13 XTU1 and Buy 10 XBM1.

Note that XT and YT are the base contracts for the June 01 – Sept 01 Inter-Commodity spread markets. **Therefore care must be taken when entering Roll orders as an order to buy the Inter-Commodity spread in the YBM1YTU11011 contract results in buying 11 YTU1 and selling 10 YBM1.**

S F E B U L L E T I N C O N T I N U E D

Inter-Commodity Pricing Algorithm

SYCOM® uses the following algorithm to calculate the individual leg prices when trading an Inter-Commodity spread.

1. Initially the system will search for the midpoint of the bid/ask range of the base contract (in the case of the roll facility, the XT and YT commodities). Once established, the system will use the specified differential to calculate the price of the secondary contract.
2. If a bid and an ask do not exist in the base contract, the system will use the midpoint of the bid/ask in the secondary contract.
3. If a bid and ask do not exist in the secondary contract, the system will use any bid or ask in the base contract.
4. If there is no bid or ask in the base contract, the system will use any bid or ask in the secondary contract.
5. If there is no bid or ask orders in either contract, the starting point will be the settlement price of the base contract.

Therefore the presence of an inappropriate or wide market in the base contracts (i.e. XT and YT) has the potential to generate individual leg prices outside the market range for the Roll.

Example

In the example below, a YBM1YTU11013 Inter-Commodity spread trade at 4 points would generate the following leg prices.

CONTRACT	BID	OFFER	GENERATED LEG PRICE
YBM1YTU11013	4	5	
YBM1	9466	9467	9476
YTU1	9470	9490	9480

Therefore please note that Inter-Commodity spread functionality generates implied spread bid/ask prices from outright market bids/asks but **does not** generate implied bids/asks in the outright market from outright spread bids/asks.

Please note that where an Inter-Commodity spread market is available, Inter-Commodity trades may not take place on the Custom Market.

S F E B U L L E T I N C O N T I N U E D

Equation for the calculation of Inter-Commodity base contract: secondary contract ratio

The change in nominal coupon from 12% to 6% and the resulting implication regarding tick value will have the following affect on the XTYT Inter-Commodity ratio.

XT tick value at 94000	=	\$74.35
YT tick value at 9470	=	\$27.72
10 X \$74.35 (XT tick value)	=	\$743.50
divided by \$27.72 (YT tick value)	=	26.82
rounded	=	27

Therefore using the above, XT and YT traded value generates a XTYT Inter-Commodity spread ratio of 10:27. The Inter-Commodity Bond roll market functions on the same principle as the existing XBM1YBM11033 Inter-Commodity spread market with the Secondary contract ratio of 10 remaining constant and the base contract ratio moving with relation to the underlying tick values.

It should be noted that as the above calculation involves the use of rounding exact equivalent exposure is not maintained.

Example.

XB tick value at 93890	=	\$94.07
XT tick value at 93890	=	\$73.60
10 X \$94.07 (XB tick value)	=	\$940.70
divided by \$73.60 (XT tick value)	=	12.78
rounded	=	13

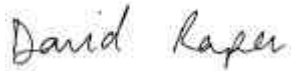
Therefore using a Ten Year Treasury Bond price of 93890 generates a coupon roll ratio of 10:13. It should be noted that using the Inter-Commodity spread facility to migrate a 1000 lot position in the 12% coupon Treasury Bond will result in a 1300 lot open position in the 6% coupon Treasury Bond. However as demonstrated in the example above to maintain exact equivalent exposure would require a 1278 lot position in the 6% coupon Treasury Bond.

S F E B U L L E T I N C O N T I N U E D

For additional information on Three and Ten Year Treasury Bonds tick values with a 6% Coupon please refer to <http://www.sfe.com.au/index.html?page=/site/zip/calculat.xls> or contact the following:

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All information and documentation regarding the change to the coupon of Three and Ten Year Treasury Bonds is available on the SFE website at www.sfe.com.au



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