

Over-Night Call Rate Futures



TFX TOKYO
FINANCIAL
EXCHANGE

Over-Night Call Rate Futures (Call Rate Futures) on the TFX

● Over-Night Call Rate Futures

- Over-Night Call Rate Futures is a futures contract, which quotes index indicated as 100 minus the average uncollateralized Over-Night Call Rate (final results) released by Bank of Japan (BOJ) over the interval between the BOJ Monetary Policy Meetings (MPMs)*.
- Over-Night Call Rate Futures are effective tools for reducing risks of short-term interest rate fluctuations by fixing interest rates in future.

* This means the period from the business day following the last day of a certain BOJ MPM designated by TFX to the last day of the next BOJ MPM. BOJ MPM does not contain the second MPMs which are held in April and October, and Unscheduled MPMs.

* In trading Uncollateralized Over-Night Call Rate, financial institutions borrow short-term funds without collateral from the call market and pay back those funds on the following day. Uncollateralized Over-Night Call Rate is the policy interest rates of the BOJ.

● Advantages of Over-Night Call Rate Futures on the TFX

- Compared with over-the-counter products based on Over-Night interest rates, Over-Night Call Rate Futures is standardized, exchange-listed product whose price is determined and made public in a fair, transparent, and efficient manner. As a clearinghouse, the TFX acts as the counter party to each contract and undertakes the clearing of all trades on the TFX market. The market participants do not need to consider the creditworthiness of the counter party.
- As an exchange-listed product, Over-Night Call Rate Futures is a simple and effective tool for fair value measurement and trading management.
- For customer protection, it is required that each TFX member segregate its customer's margin from the member's own, and deposit the margin with the TFX.
- The TFX has adopted LIFFE CONNECT®, a cutting-edge trading system, whose sophisticated functionalities provide abundant trading opportunities through a range of order methods and strategy trades*. Block Trading is available either as a cross trade or as a bilateral between two members, not on an auction basis.
- Give-ups are applicable to the contracts listed on LIFFE CONNECT®, and will facilitate order executions and clearing. The TFX uses the SPAN®* method to calculate margin requirements.

* Major strategy trades include "Calendar Spread," "Butterfly," and "Condor".

* SPAN® used herein is a registered trademark of CME (Chicago Mercantile Exchange Inc.) and is used under license. CME assumes no liability in connection with the use of SPAN® by any person or entity.

● Contract Specifications of Over-Night Call Rate Futures

	Over-Night Call Rate Futures	
Underlying asset	Average Uncollateralized Over-night Call Rate (Final results) released by Bank of Japan (BOJ) over the interval between the BOJ MPMs	
Trading unit	¥ 300,000,000 (Notional principal amount)	
Price quotation	100 minus rate of interest	
Tick size & Value	0.005(0.005%) ¥ 1,250 (¥300,000,000×0.005%×30 / 360 = ¥ 1,250)	
Contract month	First 6 months	
Last trading day	The last day of the BOJ MPM	
Final settlement day	The second business day following the last trading day	
Final settlement	Cash settlement	
Final settlement price	100 minus the average Uncollateralized Over-Night Call Rate (final results) in the contract month published by BOJ over the interval between the BOJ MPMs, rounded to the nearest 3rd decimal place	
Trading hours (JST)	8:30~ 8:45 Pre-open 8:45~11:30 Day session 11:30~12:30 Restricted period 12:30~15:30 Day session 15:30~20:00 Evening session	
Trading hours for the contract on its last trading day (JST)	8:30~ 8:45 Pre-open 8:45~11:30 Day session 11:30~12:30 Restricted period 12:30~15:30 Day session	
Vendor code	Bloomberg CQG Interactive data Jiji Press QUICK SIX Telekurs Thomson Reuters Morningstar	ONTA <Comdty> CT <GO> JON (example:JONJ8) F:ON\myy (MAIN NX) UCCALLONF/J1021, UCCALLONFBLK/J1021 (JMSII)QW08, QW09, QW10, QW11 011.1*K ONyymm (example: ON0801) 0#JOV 0#BJOV: ON+Year+Month+tk (example: ON0G.tk)

Methods of Utilizing Over-Night Call Rate Futures Trading

1. As a Future Interest Rate Index

Over-Night Call Rate Futures can be used as an index for forecasting future monetary policy.

Example: Assume the BOJ MPMs in July, August and September 200X are scheduled on July 14·15, August 9·10 and September 6· 7, and at this time the market quotes the following prices;

(Contract month: August (from July 16 to August 10) 99.675 (Displayed interest rate: 0.325%)
 (Contract month: September (from August 11 to September 7) 99.500 (Displayed interest rate: 0.500%)

The above price suggests that market participants are forecasting an interest rate rise as a result of change in the policy interest rate at the BOJ MPM in August.

2. As a Risk-Hedge Method

Over-Night Call Rate Futures can be used efficiently for a hedge against the risks of interest rate fluctuations.

On June 1, 200X, Company A plans to borrow funds for 28 days (from August 11 to September 7) from the Overnight Call money market rolling over daily. The average funding amount during this period is estimated to be 30 billion yen. Company A anticipates increase in the policy interest rate at the BOJ MPM on August 10 and intends to hedge the risk of interest rate rise.

Example:

	Futures	Spot
Hedging date: June 1	Selling 100 contracts (contract month: September) at 99.500	Over-Night index rate: around 0.500% No transaction
As expected, the interest rate rises by 0.25% in both futures and spot.		
	The contract month of September falls to 99.250.	The Over-Night index rate increases to 0.750%.
Funding	Buying 100 contracts (contract month: September) at 99.250	Over-Night index rate for from Aug.11 to Sep7(28days): 0.750% average Average funding amount: JPY 30 billion
Results	Calculation of results: $(99.500 - 99.250) / 0.005 \times 100 \text{ contracts}$ $\times \text{JPY } 1,250$	Calculation of results: $(0.500\% - 0.750\%) \times \text{JPY } 30 \text{ billion}$ $\times 28 / 365$
	Profit from Over-Night Call Rate Futures: JPY 6,250,000	Increase of interest payable: Approximately JPY 5,750,000

3. As a Speculation

Example: On June 1, 200X, Company B expects the price of Over-Night Call Rate Futures(contract month: September) to fall (=interest-rate increase)

June 1	Selling 100 contracts of Over-Night Call Rate Futures (contract month: September) at 99.500	Making position	Profit $(99.500 - 99.250) / 0.005 = 50$ $50 \times \text{JPY } 1,250 \times 100 \text{ contracts} =$ JPY 6,250,000
As anticipated, Over-Night Call Rate Futures fall (= interest rate rise).			
August 10	Buying 100 contracts of Over-Night Call Rate Futures at 99.250	Closing position	



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