

Spot-Next Repo Rate Futures



TFX TOKYO
FINANCIAL
EXCHANGE

Spot-Next Repo Rate Futures (Repo Rate Futures) on the TFX

● Spot-Next Repo Rate Futures

- Spot-Next Repo Rate Futures is a futures contract, which quotes index indicated as 100 minus the average GC Spot-Next Repo Rate* (Tokyo Repo Rate) released by Bank of Japan (BOJ) over the interval between the BOJ Monetary Policy Meetings(MPMs)*.
- Spot-Next Repo Rate Futures are effective tools for reducing risks associated with 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.

* GC Spot-Next Repo Rate is one of the major over-night interest rates in Japan. GC (General Collateral) Repo transaction is a contract that exchanges general collateral, typically government bond for raising funds.

● Advantages of Spot-Next Repo Rate Futures on the TFX

- Compared with over-the-counter products for overnight interest rates, Spot-Next Repo 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 a 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, Spot-Next Repo Rate futures is a simple and effective tool for fair value measurement and trade 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 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 for Spot-Next Repo Rate Futures

	Spot-Next Repo Rate Futures	
Underlying asset	Average GC Spot-Next Repo Rate (Tokyo Repo Rate) 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 ¥ 1,250 (¥300,000,000 × 0.005% × 30 / 360 = ¥ 1,250)	
Contract month	First 6 months	
Last trading day	Two business days prior to the last day of the BOJ MPM	
Final settlement day	The first business day following the last trading day	
Final settlement	Cash settlement	
Final settlement price	100 minus the average GC Spot-Next Repo Rate in the contract month published by BOJ over the interval between the BOJ MPMs, rounded to the nearest 3 rd 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
	8:45~11:00	Day session
Vendor code	Bloomberg CQG Interactive data Jiji Press QUICK SIX Telekurs Thomson Reuters Morningstar	SNTA <Comdty> CT <GO> JSN(example: JSNJ8) F:SN/myy (MAIN NX) GCREPOSNF/J1021, GCREPOSNFBLK/J1021 (JMSII)QW12, QW13, QW14, QW15 021.1*K SNyymm (example: SN0801) 0#JSN: 0#BJSN: SN+Year+Month+tk (example: SN0G.tk)

Methods of Utilizing Spot-Next Repo Rate Futures Trading

1. As a Future Interest Rate Index

Spot-Next Repo Rate Futures can be used as an index to forecast future monetary policy.

Example: Assume the BOJ MPMs in July, August 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)	99.575(Displayed interest rate: 0.425%)
(Contract month: September (from August 11 to September 7)	99.400(Displayed interest rate: 0.600%)

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 Risk-hedge Method

Spot-Next Repo Rate Futures can be used efficiently for a hedge against the risk of interest rate fluctuations.

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

	Futures	Spot
Hedging date: June 1	Selling 100 contracts (contract month: September) at 99.400	Overnight index rate: around 0.600% No transaction
As expected, the interest rate rises by 0.25% in both futures and spot.		
	The September contract month falls to 99.150.	The overnight index rate increases to 0.850%.
Funding	Buying 100 contracts (contract month: September) at 99.150	Overnight index rate from Aug 11 to Sep 7(28days) 0.850% average Average funding amount: JPY 30 billion
Results	Calculation of results: $(99.400 - 99.150) / 0.005 \times 100 \text{ contracts}$ $\times \text{JPY } 1,250$	Calculation of results: $(0.600\% - 0.850\%) \times \text{JPY } 30 \text{ billion}$ $\times 28 / 365$
	Profit from Spot-Next Repo Rate Futures: JPY 6,250,000	Increase in interest payable: Approximately JPY 5,750,000

3. As a Speculation

Example: On June 1, 200X, Company B estimate the price of Spot-Next Repo Rate Futures (Contract month: September) to fall (interest rate increases)

June 1	Selling 100 contracts of Spot-Next Repo Rate Futures (contract month: September) at 99.400	Making position	<table border="1"> <thead> <tr> <th>Profit</th> </tr> </thead> <tbody> <tr> <td>$(99.400 - 99.150) / 0.005 = 50$ $50 \times \text{JPY } 1,250 \times 100 \text{ contracts} =$ JPY 6,250,000</td> </tr> </tbody> </table>	Profit	$(99.400 - 99.150) / 0.005 = 50$ $50 \times \text{JPY } 1,250 \times 100 \text{ contracts} =$ JPY 6,250,000
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As anticipated, Spot-Next Repo Rate Futures fall (= interest rate rise).					
August 10	Buying 100 contracts of Spot-Next Repo Rate Futures at 99.150	Closing position			



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