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August 26, 2021

CME Group

Introducing CME Group Micro Treasury Yield Futures

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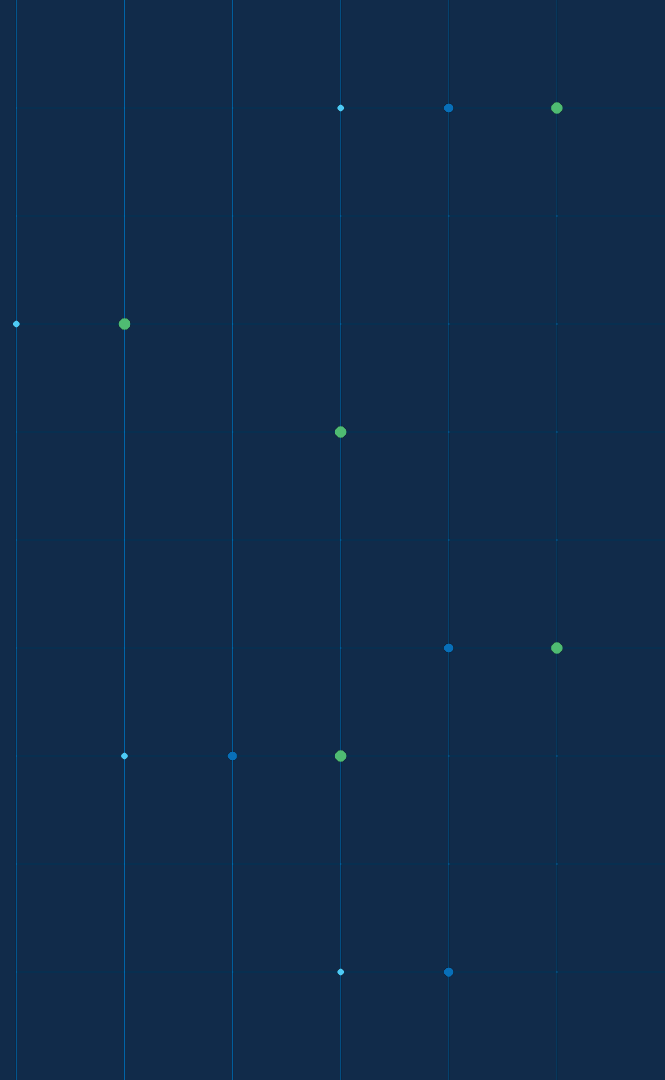
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Micro Treasury Yield Futures

August 2021



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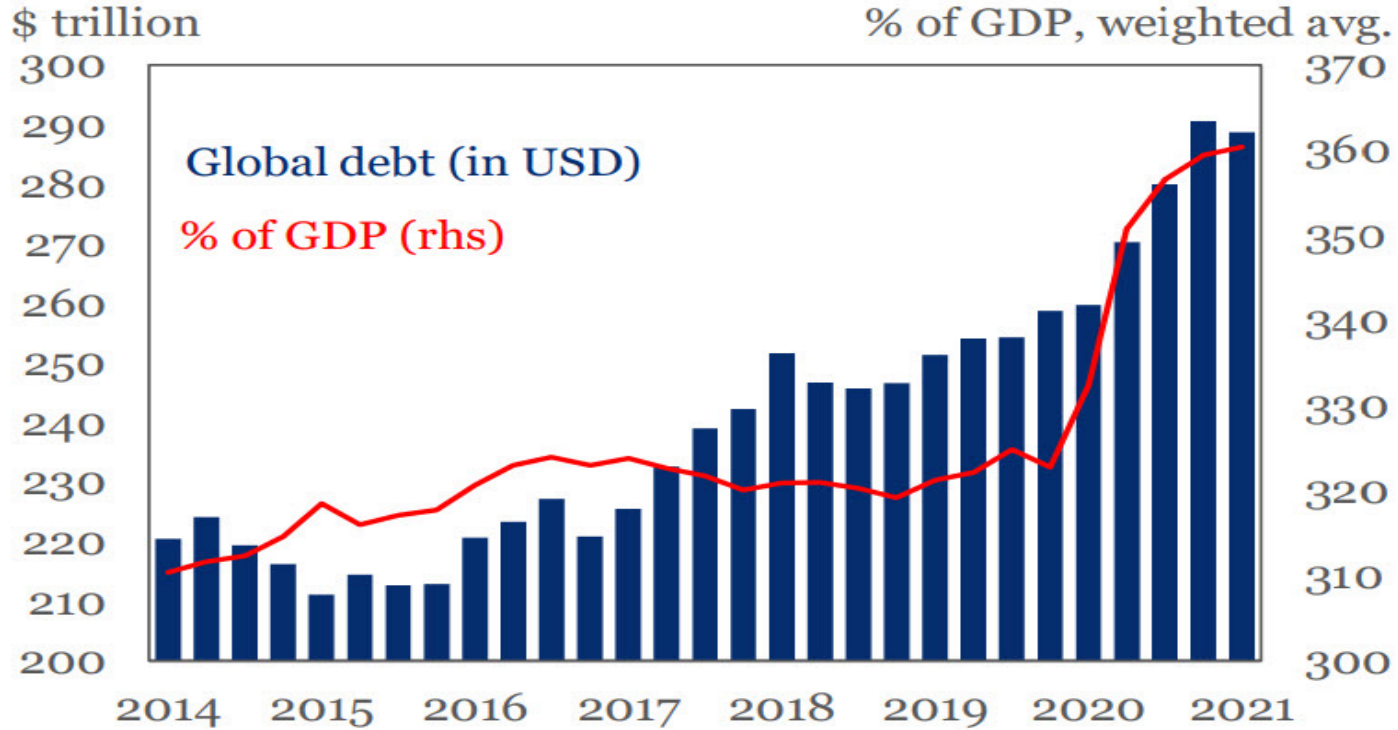
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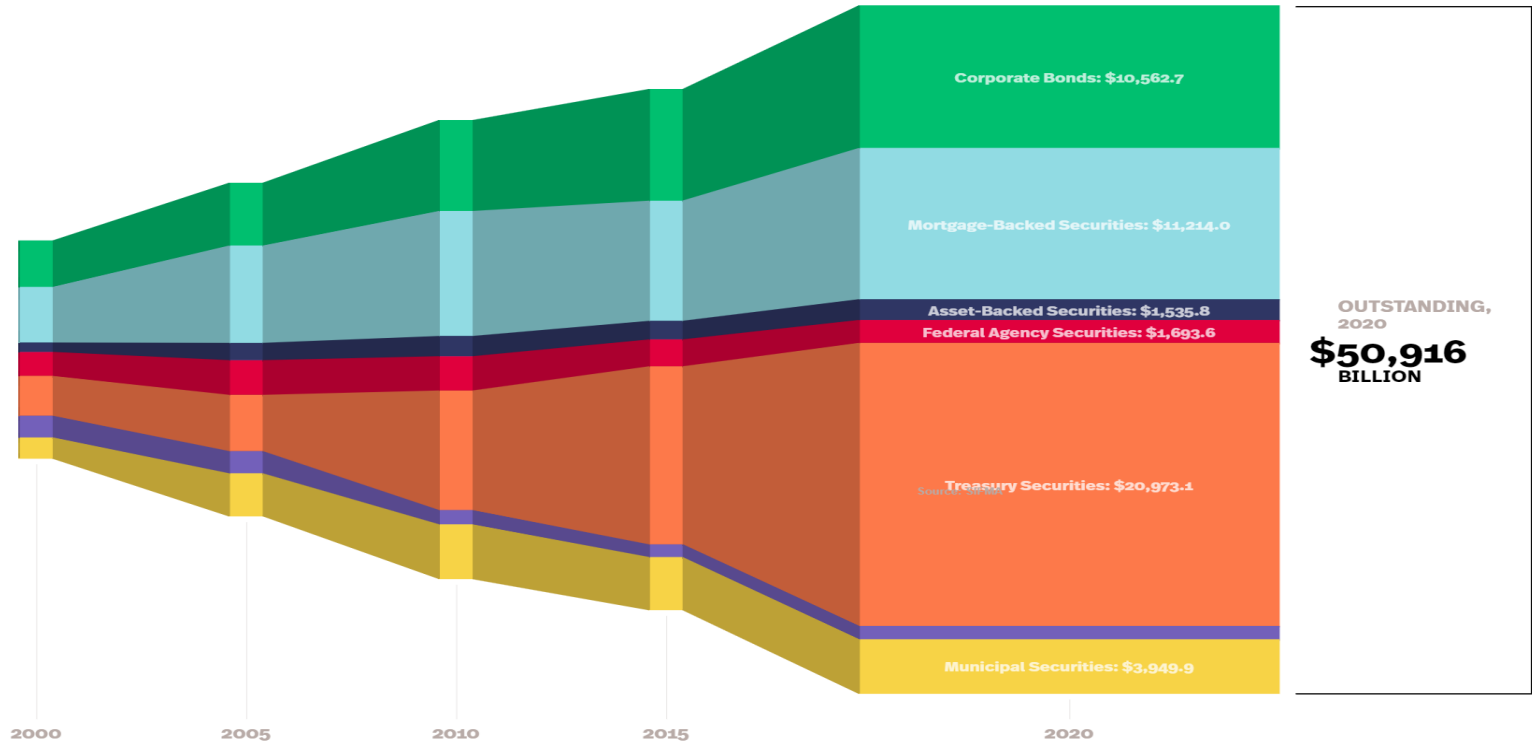
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Growth of global debt



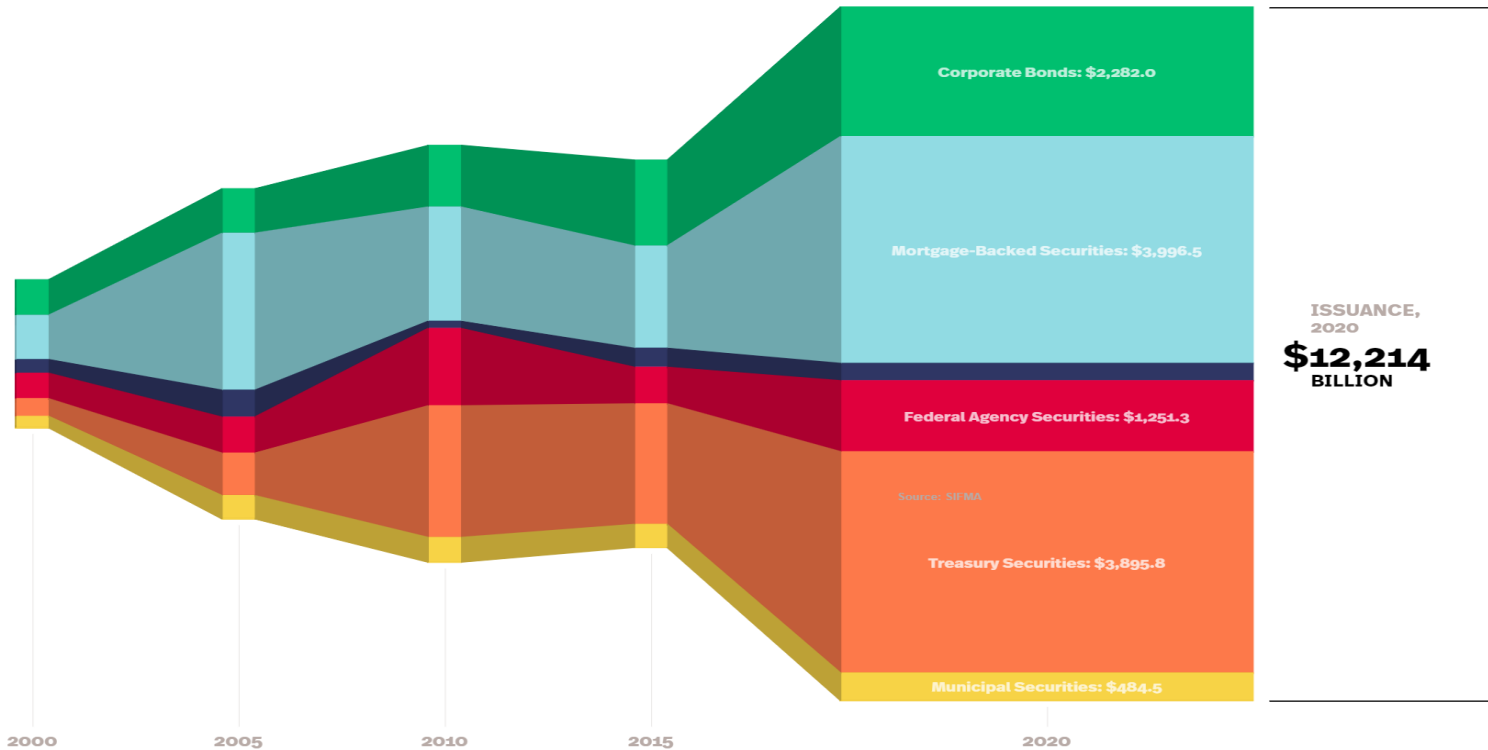
Source: IIF, BIS, IMF, National sources

Growth of US Debt Market



Source: sifma.org, July 2021

Growth of US Debt Market



Source: [sifma.org](https://www.sifma.org), July 2021

Growth of US Debt Market

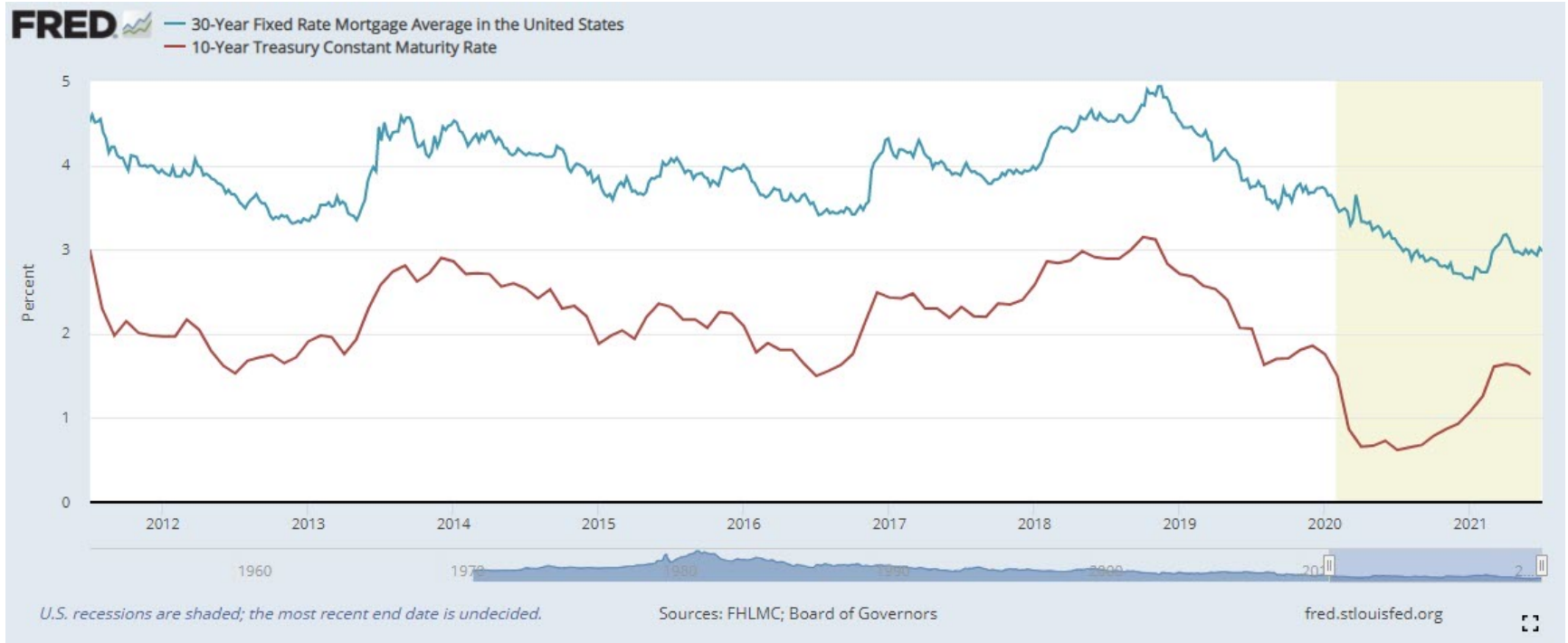
US Treasury securities make up a large portion of fixed income benchmark portfolios, and therefore, a large portion of benchmarked funds and products.

For example, one of the most recognized US fixed income benchmarks is the Bloomberg-Barclays US Aggregate Index (“the Agg”). Roughly 38% of the Agg’s total holdings are US Treasury securities.

Additionally, a widely recognized global bond index is the Bloomberg-Barclays Global Aggregate Index. It measures investment-grade debt from 24 local currencies. US Treasuries comprise roughly 36% of the USD debt component.

Source: Bloomberg and CME Group

US Treasury Rates and Consumer Rates



Source: Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MORTGAGE30US>, July 7, 2021.

US Treasury market

The most common Treasuries come in three types:

Treasury Bills (T-bills)

short-term securities that are non-interest bearing (zero-coupon) with original maturities of one-year or less. Regularly auctioned 4-, 13-, 26-, and 52-week maturities.

Treasury Notes (T-notes)

fixed-principal securities issued with maturities of 2-, 3-, 5-, 7-, and 10-years. Auctioned monthly or quarterly.

Treasury Bonds (T-bonds)

long-term, fixed principal securities with maturities greater than 10 years.

Currently, the US Treasury issues 30-year and 20-year T-bonds.

Source: FINRA.org

US Treasury market

The market for US Treasury securities is by many measures the largest, most active debt market in the world.

Marketable Treasury securities are issued through regularly scheduled auctions in what is called the *primary market*.

The market for government securities is an over-the-counter market in which participants trade with one another on a bilateral basis rather than on an organized exchange. This is called the *secondary market*.

Trading takes place between dealers, financial institutions, and individuals.

Source: Federal Reserve Bulletin, December 1999, [federalreserve.gov](https://www.federalreserve.gov), July 2021

US Treasury auction cycles

Treasury notes and bonds are auctioned and pay semi-annual coupon interest on one of two schedules:

15th of the month:

February Quarterly - 15 Feb/15 Aug or 15 May/15 Nov

Applies to bonds, and notes issued with 10-year original term to maturity.

General form – 15 Jan/15 Jul, 15 Feb/15 Aug...15 Jun/15 Dec.

Applies to notes issued with 3-year original term to maturity.

End of month:

31 Jan/31 Jul, 28 (or 29) Feb/31 Aug, 31 Mar/30 Sep...

Applies to notes issued with 2-year, 5-year, or 7-year original term to maturity.

US Treasury auction cycles

The Treasury issues securities consistently and predictably through a regular schedule of auctions.

The process begins several days before the scheduled auction when the Treasury announces details of the upcoming issue, including the amount to be auctioned and the maturity date.

After the auction is announced but before it takes place, investors begin trading the yet-to-be-issued security in what is called the *when-issued market*.

Securities trading as when-issued is commonly referred to as a “WI” security.

Source: Federal Reserve Bulletin, December 1999, [federalreserve.gov](https://www.federalreserve.gov), July 2021

Micro Treasury Yield futures

What a Micro Treasury Yield futures contract is *AND* what it is not.

Micro Treasury Yield futures are *not* micro-sized US Treasury securities. They convey no rights of ownership, nor do they pay or accrue interest.

They are *futures contracts* which, as a contract, provide certain rights and obligations.

The terms of the contract are outlined in its contract specifications, available for viewing on [CMEGroup.com](https://www.cmegroup.com).

Micro Treasury Yield futures

Contract specifications

	MICRO 2-YEAR YIELD FUTURES	MICRO 5-YEAR YIELD FUTURES	MICRO 10-YEAR YIELD FUTURES	MICRO 30-YEAR YIELD FUTURES
PRODUCT CODE	2YY	5YY	10Y	30Y
SETTLEMENT	Cash-settled to BrokerTec 2-Year benchmark	Cash-settled to BrokerTec 5-Year benchmark	Cash-settled to BrokerTec 10-Year benchmark	Cash-settled to BrokerTec 30-Year benchmark
PRICE CONVENTION	US Treasury Yield			
CONTRACT SIZE	\$10.00 DV01			
TICK SIZE	\$1.00 (1/10 of 1 bp)			
# OF EXPIRIES	2 nearest monthly contracts			
TERMINATION	Last Business Day of Month			

Contract specifications are subject to regulatory review and may change

Source: CME Group

Micro Treasury Yield futures

US Treasury notes and bonds trade in price terms but are frequently referred to in *yield terms*.

For example, the current on-the-run (OTR) US Treasury 10-Year note is the 1.625% of 5/15/2031 – which closed 13 July at a price of 101'29-1/4 (1/32s) and yielded **1.4155%**.

Micro Treasury Yield futures trade in yield terms.

Micro Treasury Yield futures

Micro Treasury Yield futures trade in yield terms.

Basis point (bp) = 0.01% of yield.

1.00% represents 100 basis points. A 0.001% is 1/10 of a basis point.

The minimum price change increment (tick) of the Micro Treasury Yield futures is 1/10 of a basis point.

The financial value (sometimes referred to as DVO1) of 1.0 basis point in Micro Treasury Yield futures is \$10 for all contracts.

One tick change (1/10 bp) in Micro Treasury Yield futures = \$1.00.

Micro Treasury Yield futures

Micro Treasury Yield futures are a cash-settled futures contract.

The final settlement value will be based on the 3:00 p.m. ET BrokerTec fixing of the contract's underlying benchmark yield.

Example – Assume a June 2021 contract cycle (for illustrative purposes):

CONTRACT	MATURITY	29 JUNE 2021	30 JUNE 2021	CHANGE	DIFFERENCE
2-Year	6/30/2023	0.252	0.247	-0.005	\$5
5-Year	6/30/2026	0.891	0.872	-0.019	\$19
10-Year	5/15/2031	1.478	1.444	-0.034	\$34
30-Year	5/15/2051	2.095	2.066	-0.029	\$29

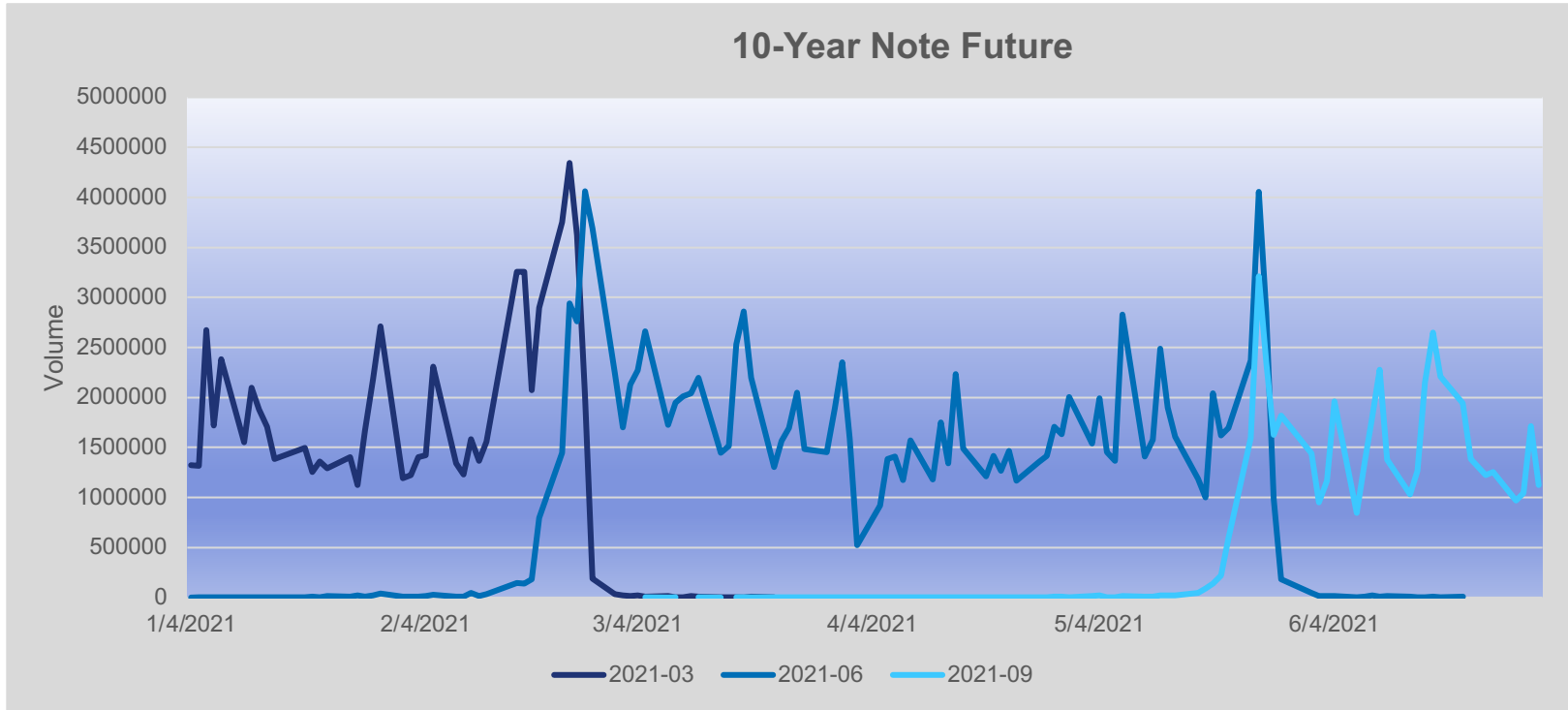
Micro Treasury Yield futures

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30-Year	5/15/2051	2.095	2.066	-0.029	\$29

A long Micro Treasury Yield 5-Year futures position would expire with a debit of \$19 per contract. A corresponding short position in the same contract would be credited by \$19.

Once the contract expires, it ceases to exist, and a new monthly contract is added to the product's trading calendar.

Futures Roll



Source: CME Group Infosource

Case study #1: price movement

A trader expects sharply higher inflation news which she believes will move US Treasury 10-Year note (CT10) yields higher. In front of the indicator's release, she buys Micro Treasury Yield 10-Year note (10Y) futures at a level of 1.350 – anticipating the yield level to rise post announcement.

The number is released and is higher, as she expected. CT10 yield rises to 1.452% and she sells her position at that level.

How did our trader do?

Bought one 10Y at 1.350 and sold one 10Y at 1.452:

$1.452 - 1.350 = 0.102$, or 102 ticks gain. 102 ticks x \$1 per tick = **\$102 profit.**

Case study #1: price movement

A trader expects sharply higher inflation news which she believes will move US Treasury 10-Year note (CT10) yields higher. In front of the indicator's release, she buys Micro Treasury Yield 10-Year note (10Y) futures at a level of 1.350, anticipating the yield level to rise post-announcement.

The number is released and is *lower*, as she expected. CT10 yield *falls* to 1.297% and she sells her position at that level.

How did our trader do?

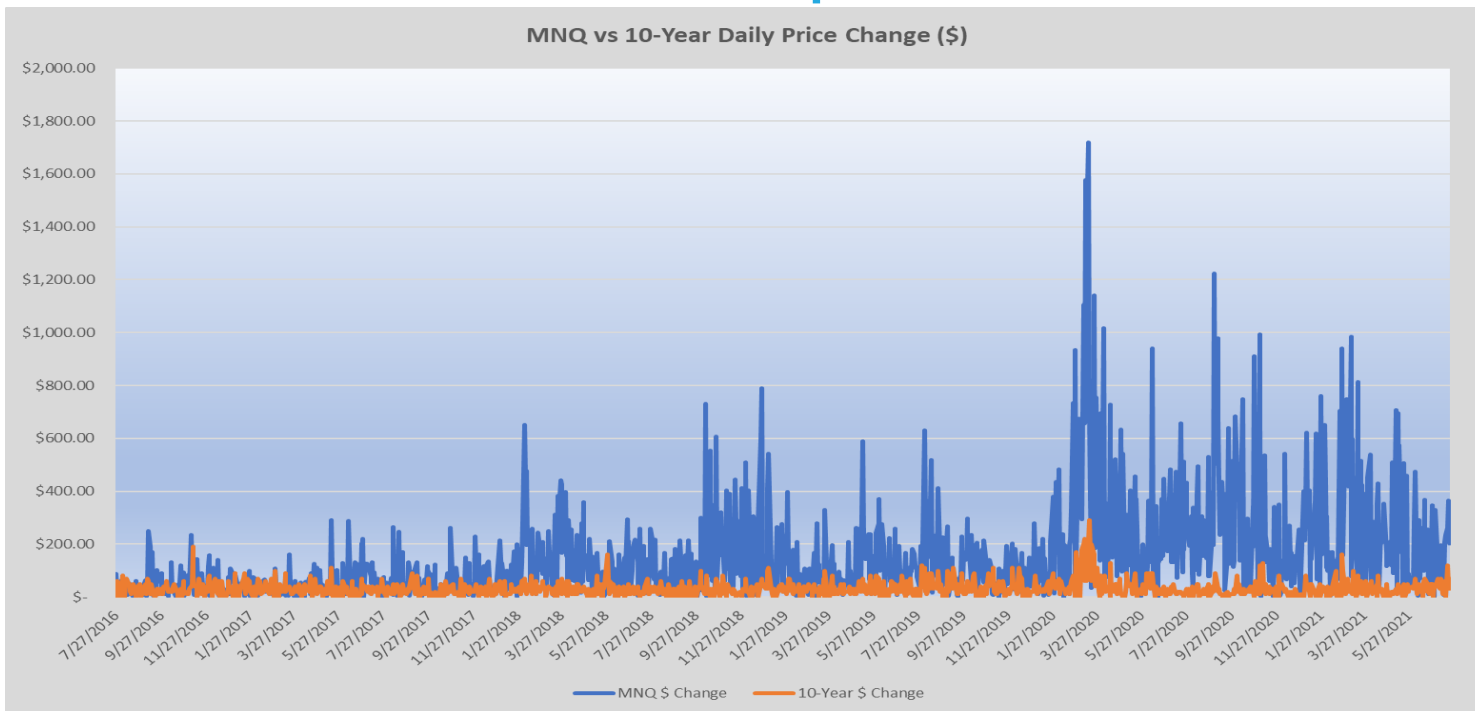
Bought one 10Y at 1.350 and sold one 10Y at 1.297:

$1.297 - 1.350 = -0.053$, or 53 ticks *loss*. 53 ticks x \$1 per tick = **\$53 loss**

Historical Price Movement Comparison

	Data Based on Closing Prices from 7/26/16-7/22/21 (1257 days)					
	AVG Daily Net Chg	# Days >\$50	# Days >\$100	# Days>\$150	# Days>\$200	MAX Daily Chg
Micro E-mini S&P 500*	\$ 102	704	423	260	163	\$ 1,399
Micro E-mini Nasdaq-100*	\$ 153	836	586	424	315	\$ 1,719
Micro WTI Crude Oil*	\$ 86	741	393	187	96	\$ 1,006
Micro Gold*	\$ 93	722	389	215	138	\$ 971
10Yr**	\$ 31	200	25	12	3	\$ 290
* Data sourced from QuikStrike closing futures prices						
** Data sourced from St. Louis Fed website https://fred.stlouisfed.org/series/DGS10						

Historical Price Movement Comparison



Source: MNQ data based on QuikStrike historical data of NQ

Source: 10-Year data based on St. Louis Fed (<https://fred.stlouisfed.org/series/DGS10>)

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Historical Price Movement Comparison

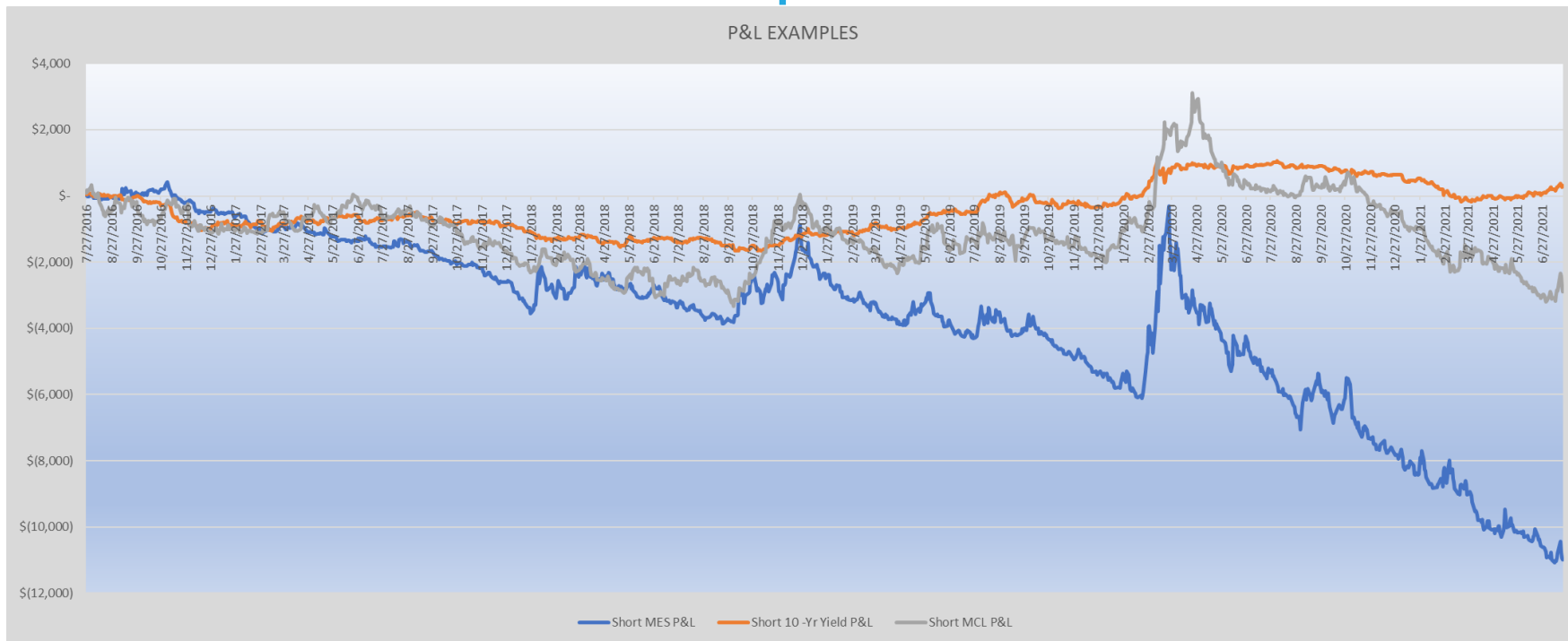


Source: ES data - QuikStrike historical data

Source: 10-Year data based on St. Louis Fed (<https://fred.stlouisfed.org/series/DGS10>)

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Historical Price Movement Comparison

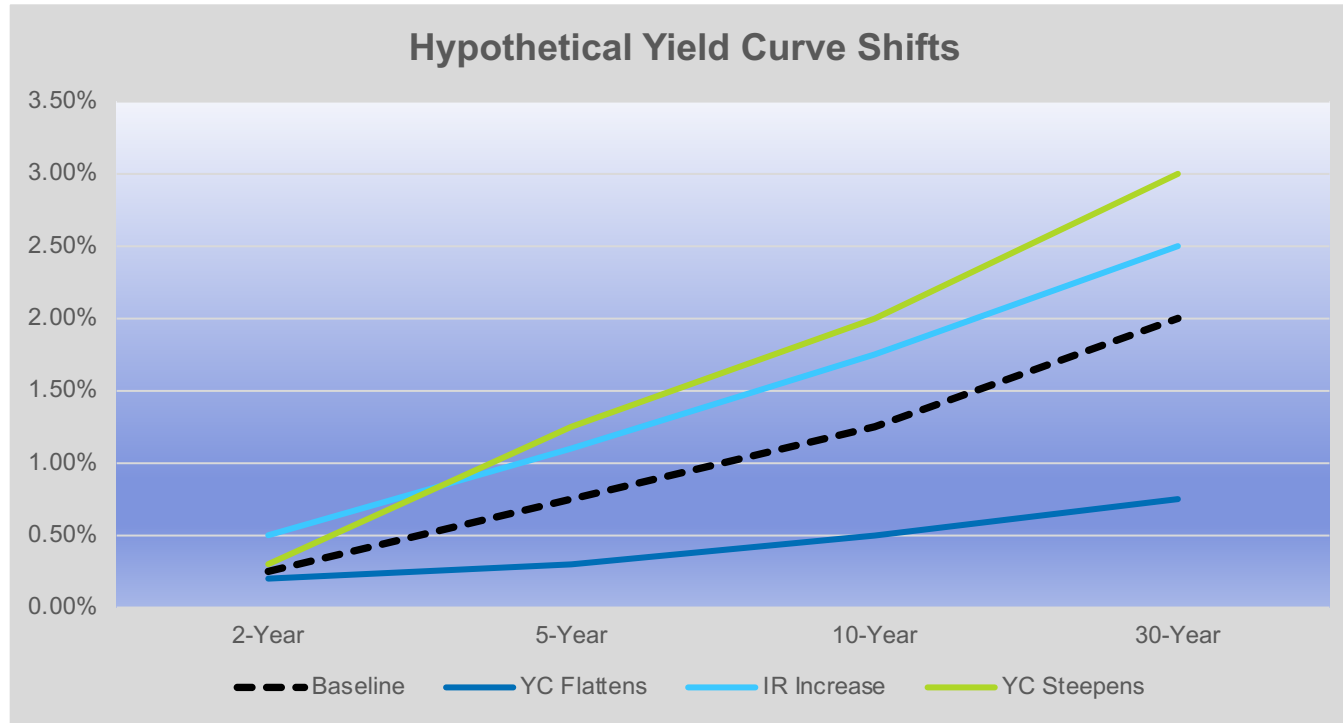


Source: MES and MCL data - QuikStrike historical data for ES and CL

Source: 10-Year data based on St. Louis Fed (<https://fred.stlouisfed.org/series/DGS10>)

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Spreading the Yield Curve



Case study #2: yield curve trades (spreads)

A trader anticipates the slope of the yield curve to steepen. Selling a short maturity and buying a longer maturity Micro Treasury Yield futures contract may facilitate that market view.

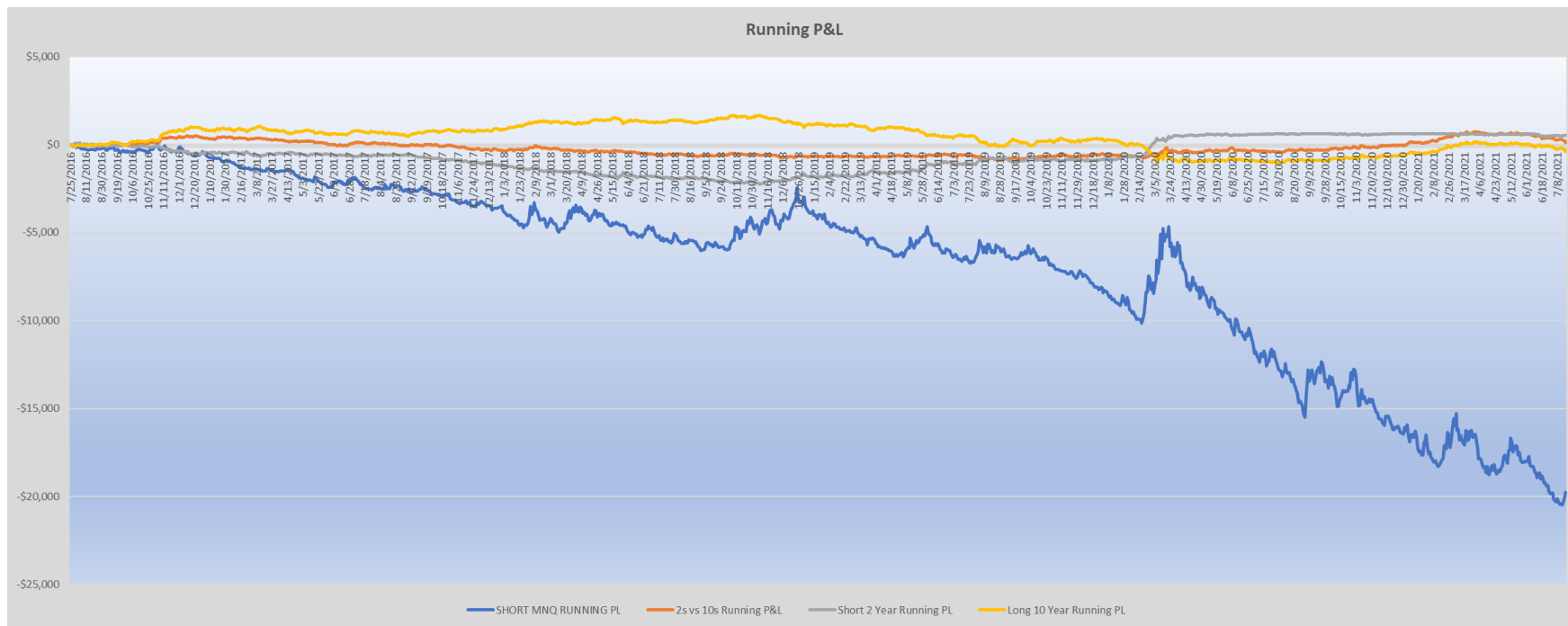
Since all Micro Treasury Yield futures contracts have the same contract size of \$10.00 DV01, the spread ratio is simply 1:1. Our trader selects selling one Two-Year (2YY) contract and buying one Ten-Year (10Y) contract.

Trade date: sells one 2YY at 0.221 and buys one 10Y at 1.342 = 1.121 difference. 1.121 represents the yield difference (slope) between 2s and 10s. This long curve spreads reflects the trader's curve steepening bias.

Case study #2: yield curve trades (spreads)

Trade Example		
Trade Entry	Price	
Sell 1 2YY	0.221	
Buy 1 10Y	1.342	
Differential	1.121	
Trade Exit	Price	
Buy 1 2YY	0.230	
Sell 1 10Y	1.527	
Differential	1.297	
Profit (BPS)	17.600	
\$10/Basis Point	\$ 176.00	
SUMMARY		
P&L 2YY	-0.009	\$ (9.00)
P&L 10Y	0.185	\$ 185.00
Total P&L		\$ 176.00

Historical Price Movement Comparison



Source: MNQ data - QuikStrike historical data for NQ

Source: 10-Year and 2-Year data based on St. Louis Fed (<https://fred.stlouisfed.org/series/DGS10>)

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Tools and resources

Cash U.S. Treasury Benchmarks											
7/7/2021 ▾ 3PM ▾											
CME BROKERTEC U.S. TREASURY BENCHMARK (3PM FIXING)											
Summary	CTD/OTR	ON-THE-RUN	WEDNESDAY, JULY 7, 2021				RECENT YIELDS				
			MATURITY	PRICE	YIELD	VOLUME (\$M)	7/7/2021	7/6/2021	7/5/2021	7/2/2021	7/1/2021
Deliverables											
2 Yr		2 Year	6/30/2023	99.8203	0.216	127	0.216	0.220	0.000	0.000	0.256
3 Yr		3 Year	6/15/2024	99.5665	0.399	293	0.399	0.408	0.000	0.000	0.470
		5 Year	6/30/2026	100.4455	0.784	599	0.784	0.809	0.000	0.000	0.902
5 Yr		7 Year	6/30/2028	101.0517	1.093	43	1.093	1.130	0.000	0.000	1.247
		10 Year	5/15/2031	102.7846	1.323	750	1.323	1.369	0.000	0.000	1.480
Ultra 10 Yr		20 Year	5/15/2041	106.3191	1.868	45	1.868	1.925	0.000	0.000	2.019
T-Bond		30 Year	5/15/2051	109.7333	1.944	292	1.944	2.001	0.000	0.000	2.087

Daily and final contract settlement will be determined by BrokerTec US Treasury Benchmark 3:00 p.m. ET fixing values.

cmegroup.com/tools-information/quickstrike/treasury-analytics

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Thank you.