THC Financial Engineering
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Risk Modeling Bulletin Issue 27

Futures Calendar Trade Mar 10 2010

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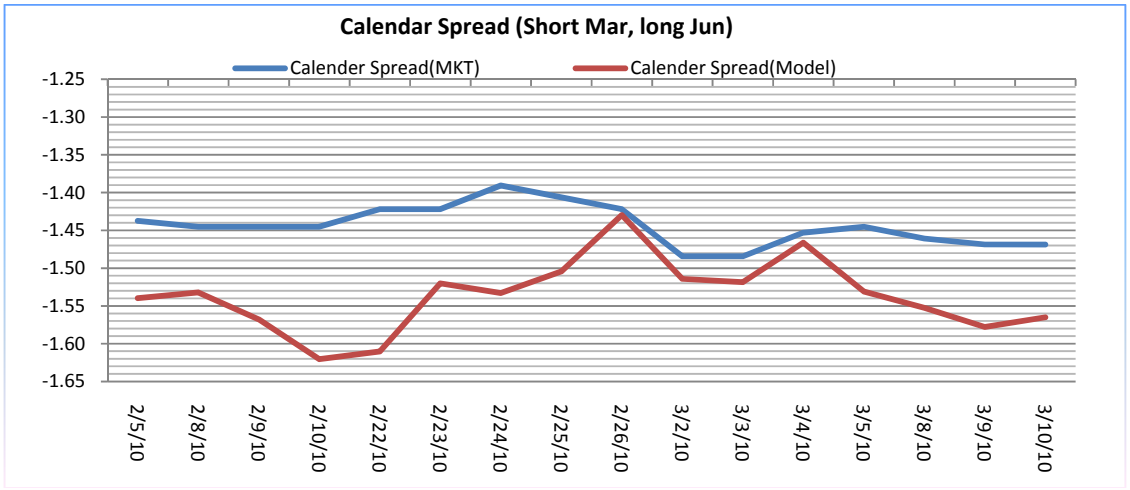
THC E-Series Feature	Bias Signal

This issue focuses on the futures calendar trade. How to determine the trade signals? How to attribute the trading performance?

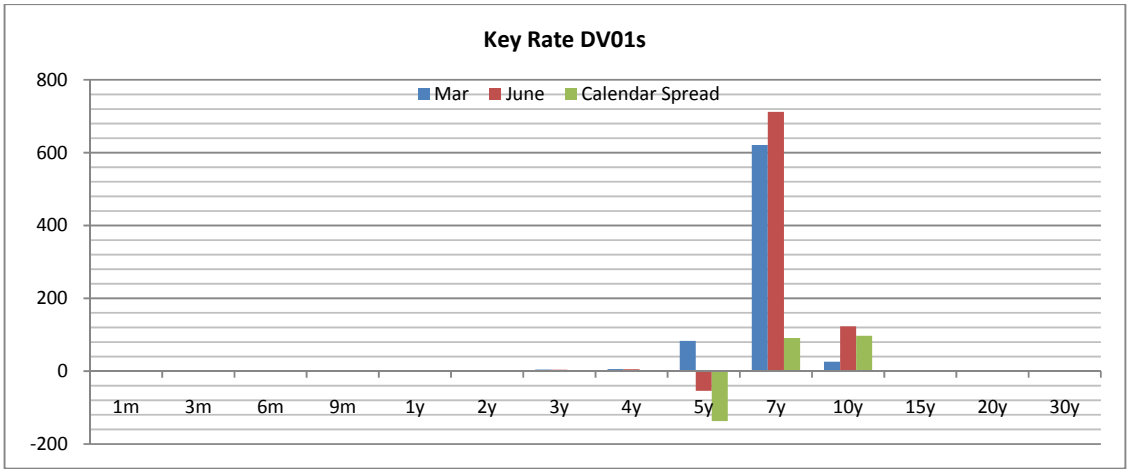
Futures Calendar Trade

The calendar trade is to short the 10 year Mar and long 10 year June futures. We use market data from February 5 – March 9.

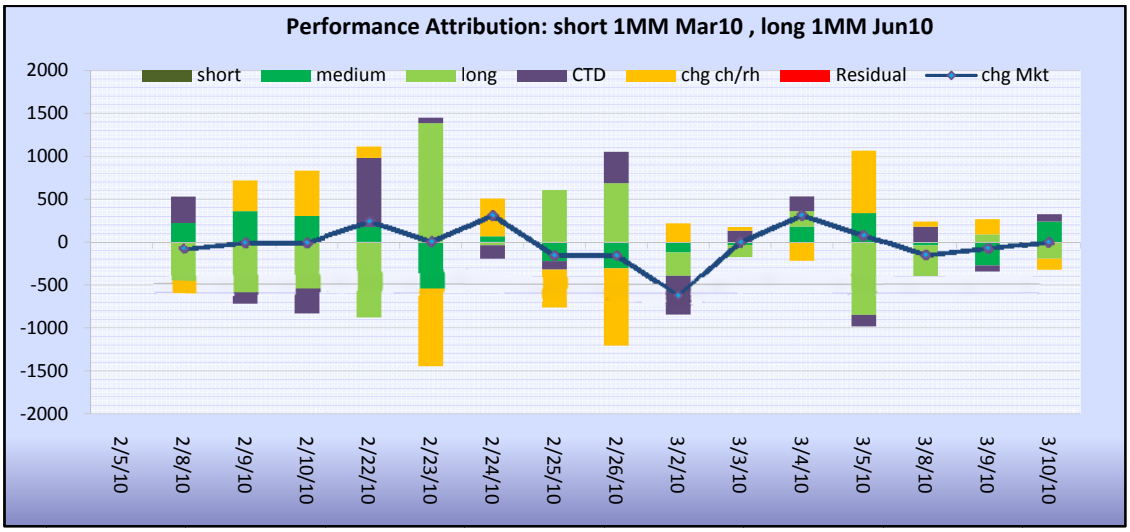
Trade Signals. The result suggests entering or exiting the trade by the spread between the market calendar spread and the model calendar spread. The figure below depicts the mean reversion of the spreads over the sample period. The market spread is shown to be wide at the beginning of the sample period but tightens at the beginning of March.



Hedge Effects. The figure below depicts the key rate DV01s of the trade. The result shows that the DV01 risk is only around $100 at the 10 year term.



Performance attribution shows that the change in the cheap/rich of the CTD is an important driver of the P/L of the trade. The P/L is the blue line. The residuals (not explained by the model) are negligible.



Conclusions. The analysis shows that sources of risks and returns of the calendar trade that traders can use to identify trading opportunities

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