

30-Day Federal Funds Futures and Options

Overview

The 30-Day Fed Funds futures and options contracts are important risk management tools for anyone who wants to hedge against or speculate on changes in short-term interest rates brought about by changes in Federal Reserve monetary policy. Fed Funds futures provide trading opportunities and hedging resources for the management of risk exposures associated with a variety of money market interest rates. Standard and mid-curve options on Fed Funds futures offer market participants instruments with defined risk parameters that can be used to express a view on the likelihood of Fed policy changes. Together, these products serve a wide spectrum of users and uses.

About the Contracts

The Fed Funds futures contract price represents the market opinion of the average daily fed funds effective rate as calculated and reported by the Federal Reserve Bank of New York for a given calendar month. It is designed to capture the market's need for an instrument that reflects Federal Reserve monetary policy. Because the Fed Funds futures contract is based on the daily fed funds effective rate for a given month, it tends to be highly correlated with other short-term interest rates and is useful for managing the risk associated with changing credit costs for virtually any short-term cash instrument. Fed Funds futures can be used either speculatively to anticipate changes in monetary policy or more conservatively to hedge inventory financing risk across many different markets.

Standard Fed Funds options make possible a wide range of trading strategies well suited to expressing a variety of market opinions based on Fed Funds futures of the same expiration month. Mid-curve Fed Funds options, as short-dated options on deferred Fed Funds futures, allow for trading strategies that take advantage of changes in market participants' hedging or speculative needs as may arise from potential shifts in monetary policy up to 12 months after the month in which the mid-curve option expires.

Fed Funds futures and options have long been regarded as an effective means of tracking market expectations of monetary action by the Federal Open Market Committee (FOMC). Perhaps no single financial policy carries more weight than the fed funds target rate. Consequently, in the weeks preceding an FOMC meeting, the Fed Funds futures and options contracts attract attention from all corners of the financial world.

CME Group FedWatch Tool

The CME Group FedWatch tool lets you quickly gauge the market's expectations of potential changes to the fed funds target rate at upcoming FOMC meetings. Users can view the probabilities of future rate movements for the next scheduled FOMC meeting, as well as the probabilities of rate movements for deferred FOMC meetings. To view the CME Group FedWatch tool, visit cmegroup.com/fedwatch.

BENEFITS

- » Provide a gauge of market expectations about Fed action at future FOMC meetings
- » Offer liquid tools to speculate on or hedge against changes in Fed monetary policy
- » Allow spreading against other short-term interest rate contracts in the CME Group suite of interest rate futures and options, including Eurodollar futures and options
- » Offer trading in transparent markets with low transaction costs, daily mark-to-markets and virtual elimination of counterparty credit risk

Market Participants

- » Proprietary traders and hedge fund managers: To express opinions about shifts in U.S. Federal Reserve monetary policy, traders can also use these futures to make a variety of relative value trades
- » Fixed-income portfolio managers: To protect against adverse shifts in overnight funding rates
- » Bank treasury officers: To protect against shifts in the relationship between overnight funding rates and term deposit rates

30-Day Federal Funds Futures Contract Specifications

	30-Day Fed Funds Futures
Underlying Instrument	Interest on Fed Funds having a face value of \$5,000,000 for one month calculated on a 30-day basis at a rate equal to the average daily Fed Funds effective rate for the delivery month.
Contract Size	\$5 million
Price Quote	100 minus the average daily Fed Funds effective rate for the delivery month (e.g., a 7.25 percent rate equals 92.75).
Tick Size	Nearest month: one-quarter of one basis point (0.0025), or \$10.4175 per contract. All other contract months: one-half of one basis point (0.005), or \$20.835 per contract.
Contract Months	First 36 calendar months
Last Trading Day	Last business day of the delivery month. Trading in expiring contracts closes at 4:00 p.m., Chicago time (CT), on the last trading day.
Final Settlement	Expiring contracts are cash settled against the average daily Fed Funds effective rate for the delivery month, rounded to the nearest one-tenth of one basis point. Final settlement occurs on the first business day following the last trading day. The daily Fed Funds effective rate is calculated and reported by the Federal Reserve Bank of New York.
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m., CT, Monday through Friday CME Globex Electronic Market: 5:00 p.m. – 4:00 p.m., CT, Sunday through Friday
Ticker Symbols	Open Outcry: FF CME Globex Electronic Market: ZQ

Underlying Fed Funds Futures Expiration

Current Calendar Year													Next Calendar Year											
	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December
January	FF						FF6						FF1											
February		FF						FF6						FF1										
March			FF						FF6						FF1									
April				FF						FF6						FF1								
May					FF						FF6						FF1							
June						FF						FF6						FF1						
July							FF						FF6						FF1					
August								FF						FF6						FF1				
September									FF						FF6						FF1			
October										FF						FF6						FF1		
November											FF						FF6						FF1	
December												FF						FF6						FF1

Contract Listings

Fed Funds futures: first 36 calendar months
Standard Fed Funds options: first 24 calendar months
6-Month Mid-Curve Fed Funds options: first 3 calendar months
1-Year Mid-Curve Fed Funds options: first 3 calendar months

Ticker Symbols

Fed Funds futures: Open Outcry – FF; CME Globex – ZQ
Standard Fed Funds options: Open Outcry – FFC for Calls and FFP for Puts; CME Globex – OZQ
6-Month Mid-Curve Fed Funds options: Open Outcry – FF6; CME Globex – ZQ6
1-Year Mid-Curve Fed Funds options: Open Outcry – FF1; CME Globex – ZQ1

Standard and Mid-Curve 30-Day Federal Funds Options Contract Specifications

	Standard Fed Funds Options	6-Month Fed Funds Mid-Curve Options	1-Year Fed Funds Mid-Curve Options
Listed	First 24 calendar months	First 3 calendar months	
Underlying Instrument	The 30-Day Fed Funds futures contract that expires in the same month as the standard option. For example, standard options expiring in January, February and March 2012 would reference the Fed Funds futures that expires in the same month in which the option expires (i.e., January, February and March 2012, respectively).	The 30-Day Fed Funds futures contract that expires six calendar months after the month that is the expiration of the 6-Month Mid-Curve option. For example, 6-Month Mid-Curve options expiring in January, February and March 2012 would reference the Fed Funds futures that expires six months after the month in which the option expires (i.e., July, August and September 2012, respectively).	The 30-Day Fed Funds futures contract that expires twelve calendar months after the month that is the expiration of the 1-Year Mid-Curve option. For example, 1-Year Mid-Curve options expiring in January, February and March 2012 would reference the Fed Funds futures that expires twelve months after the month in which the option expires (i.e., January, February and March 2013, respectively).
Minimum Fluctuation	One-quarter of one basis point (0.0025), or \$10.4175 per contract.		
Strike Increment	Strike prices will be listed in increments of 6.25 basis points (0.0625) and 12.5 basis points (0.1250). The following strike prices in increments of 6.25 basis points will be listed: the at-the-money strike price closest to the current futures price plus the next ten consecutive higher and the next ten consecutive lower strike prices. Above and below this band, the following strike prices in increments of 12.5 basis points shall be listed: the next five (5) consecutive higher and the next five (5) consecutive lower strike prices.		
Last Trading Day	Last business day of the delivery month. Trading in expiring options ceases at the close of the regular CME Globex trading session for the corresponding futures contract.		
Settlement/ Exercise	American-style. The buyer of an option may exercise the option on any business day prior to expiration by giving notice to CME Clearing by 6:00 p.m., Chicago time (CT). Options that expire in-the-money after the close on the last trading day shall be automatically exercised on the business day following the last trading day, unless specific instructions are given to CME Clearing by 6:00 p.m., CT.	American-style. The buyer of an option may exercise the option on any business day prior to expiration by giving notice to CME Clearing by 6:00 p.m., CT. Following the termination of trading of an option, no contrary option exercise instructions are permitted. All in-the-money options shall be automatically exercised and all out-of-the-money options shall be abandoned by CME Clearing on the day of expiration for the option. At-the-money options will be considered out-of-the-money.	
Expiration	Unexercised options shall expire at 7:00 p.m., CT, on the business day following the last trading day.	Unexercised options shall expire at 7:00 p.m., CT, on the last trading day.	
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m., CT, Monday through Friday CME Globex Electronic Market: 5:00 p.m. – 4:00 p.m., CT, Sunday through Friday		
Symbols	Open Outcry: Calls FFC and Puts FFP CME Globex Electronic Market: OZQ	Open Outcry: FF6 CME Globex Electronic Market: ZQ6	Open Outcry: FF1 CME Globex Electronic Market: ZQ1

For information on 30-Day Federal Funds futures and options, visit cmegroup.com/interestrates.



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30-Day Federal Funds Futures and Options are listed with and subject to the rules and regulations of CBOT.

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged instrument, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

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