

Eurex Fixed Income Options Insights

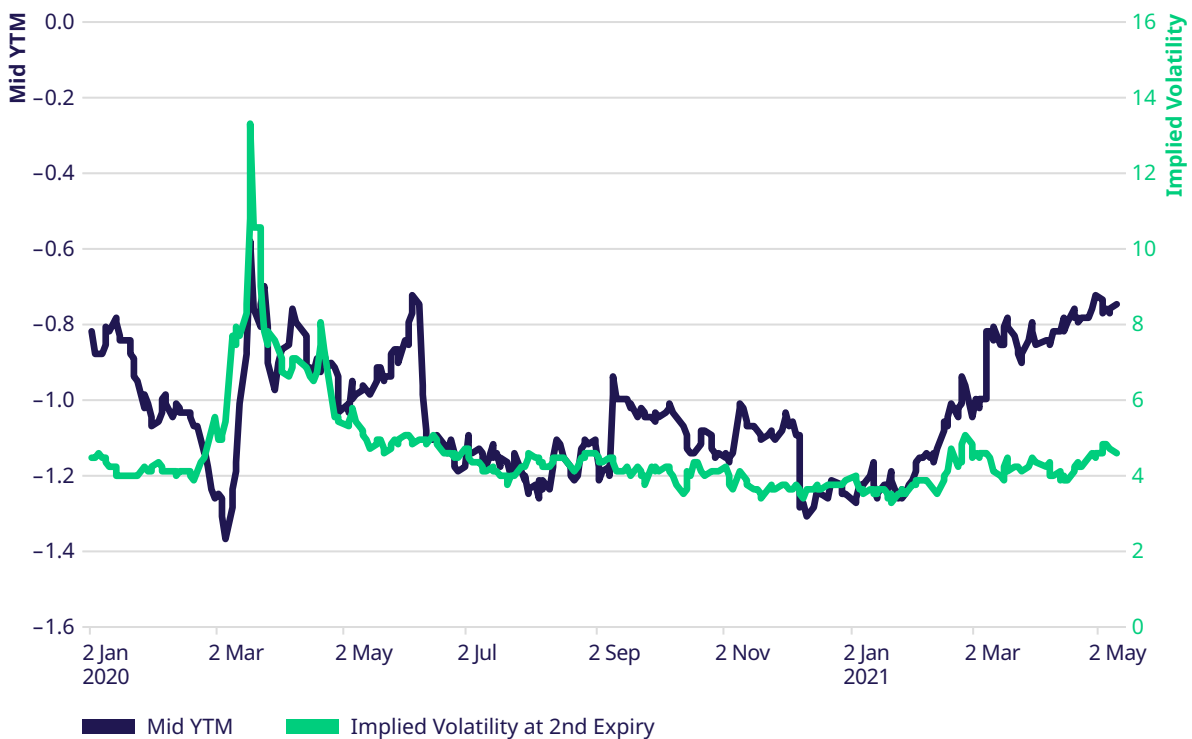


Fixed Income Options trading in 2021

In Q1 2021, Fixed Income Trading was well supported by expectations of higher inflation levels both in forward-looking markets and higher inflation levels reported in realized terms. The accompanying bear steepening of European government bond yield curves created a breadth of trading opportunities, especially at the longer end of the curve and propelled daily average volumes in Bund options over 50% higher than 2020 levels.

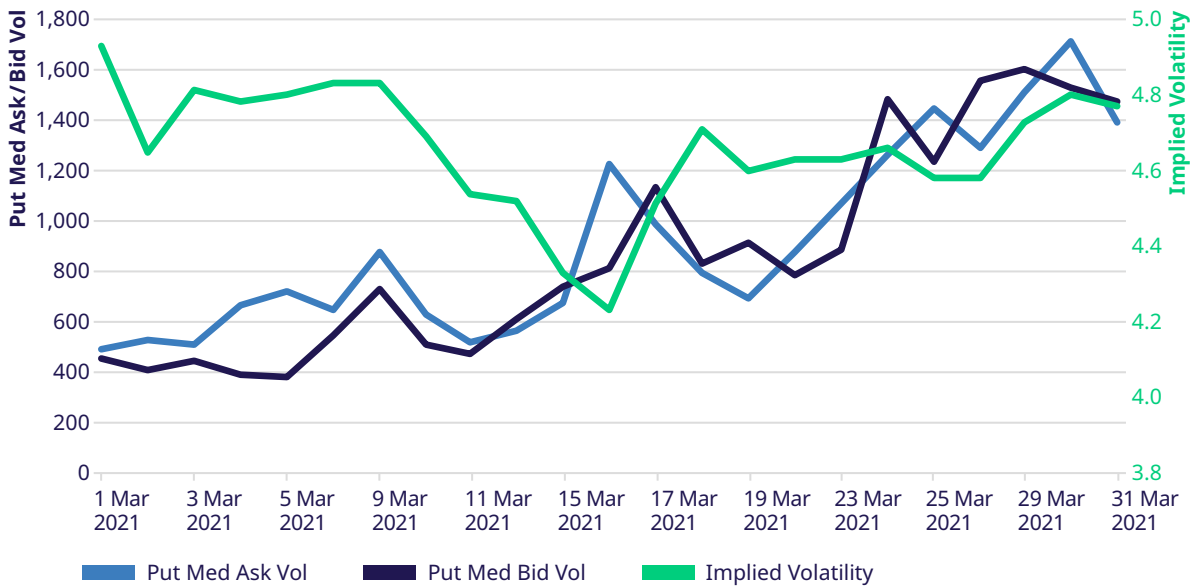
The 2021 yield rise of as much as 50 basis points in Bunds contributed to an increase and subsequent drop in implied volatility from under 4% to 5.5% and then back down to 4%. Eurex observed continued use of short volatility strategies to enhance portfolio yield with Bund options. Volumes were further supplemented by option strategies focused on yield direction and velocity, as well as implied volatility skew. Overall, Bund options liquidity is supported by 14 market makers both on-book and in the broker market.

FGBL Mid YTM vs Implied Volatility



Besides the liquidity and trading coverage provided by sell-side specialists and inter-dealer brokers, on-book liquidity facilitates as much as 50% of volume in Bund options, as more and more investors are executing trades themselves via electronic order entry. Market makers significantly increased liquidity available on the bid-ask over the past years, often at one tick wide prices.

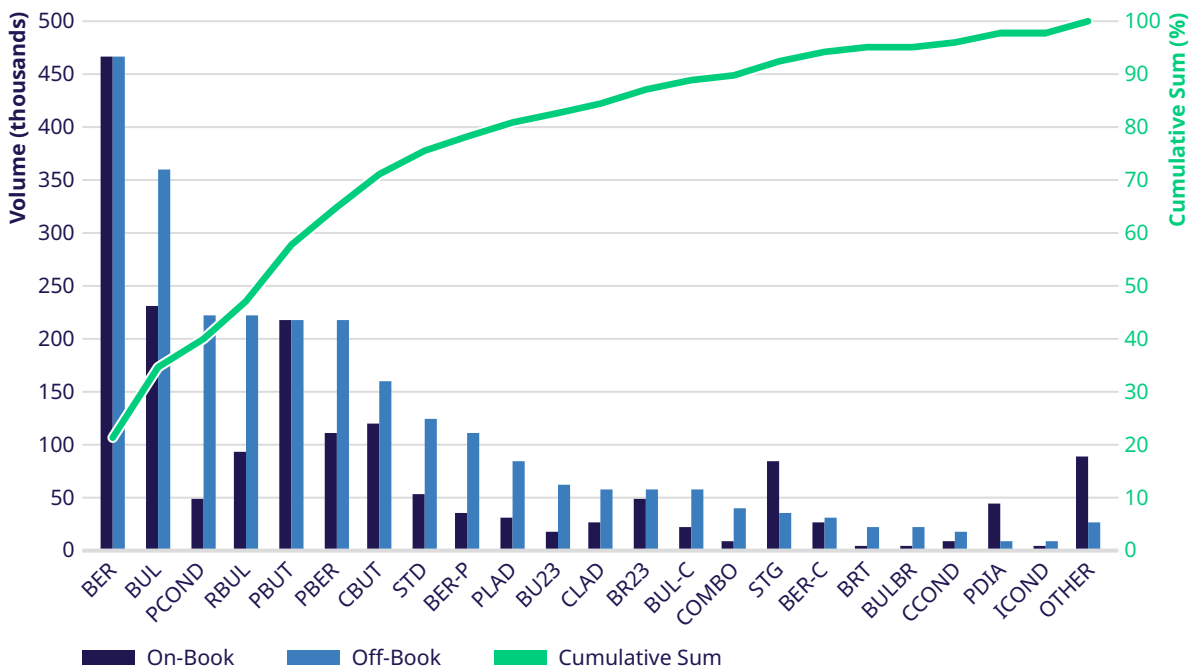
BBO Size Bund JUNE 21 OTM Strikes Puts vs Implied Volatility



The order book shows nearby expiries well supported at tight spreads and quote sizes ranging from hundreds to thousands of option contracts available for point-and-click execution. Given how Fixed Income Options are tied to the underlying futures, liquidity picked up over March as trading interest in futures shifted to June expiries.

Investors with direct market access to Eurex markets can take advantage of option strategies that are supported by a multitude of independent trading software vendors. Users can create option structures tailored to their investment objective in terms of strategy and expiry across the full range of strikes. One can also create order books for non-standard strategies for bespoke structures with up to five option legs. Most volume is traded in directional strategies such as call and put spreads, followed by skew sensitive structures such as condors and butterflies:

OGBL Option Strategy Q1 2021 Breakdown



Strategies are often quoted in thousands of contracts at one to two tick wide bid-offer spreads as the risk characteristics can be offsetting and may reduce the delta and vega sensitivity of a given structure.

Contract	CBQty	CBid	CAsk	CAQty	CVol
OGBL BER Jun21 16800 – 16700	1,106	0.07	0.08	3,399	5,000
OGBL BER Jun21 17100 – 17050	5,233	0.40	0.42	2,992	4,500
OGBL BRT Jun21 Jul21 16950	365	0.02	0.05	365	3,067
OGBL BER Jun21 16900 – 16850	1,276	0.14	0.15	3,656	2,505
OGBL BER Jun21 16900 – 16800	4,135	0.22	0.24	2,667	2,300
OGBL PBUT Jun21 16800 – 16950 – 17100	986	0.62	0.65	842	2,041
OGBL BUL Jul21 17200 – 17300 vs C 17350	477	-0.01	0.01	349	1,800
OGBL BER Jun21 17000 – 16900	1,435	0.5	0.52	2,216	1,625
OGBL PBUT Jun21 16850 – 16900 – 16950	1,363	0.06	0.08	3,165	1,500
OGBL PDIA Jun21 16950 Jul21 17000	563	0.17	0.20	387	1,500

Contact us at Eurex for more insights into how our fixed income options suite can help navigate today's and tomorrow's markets.



Contact us

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