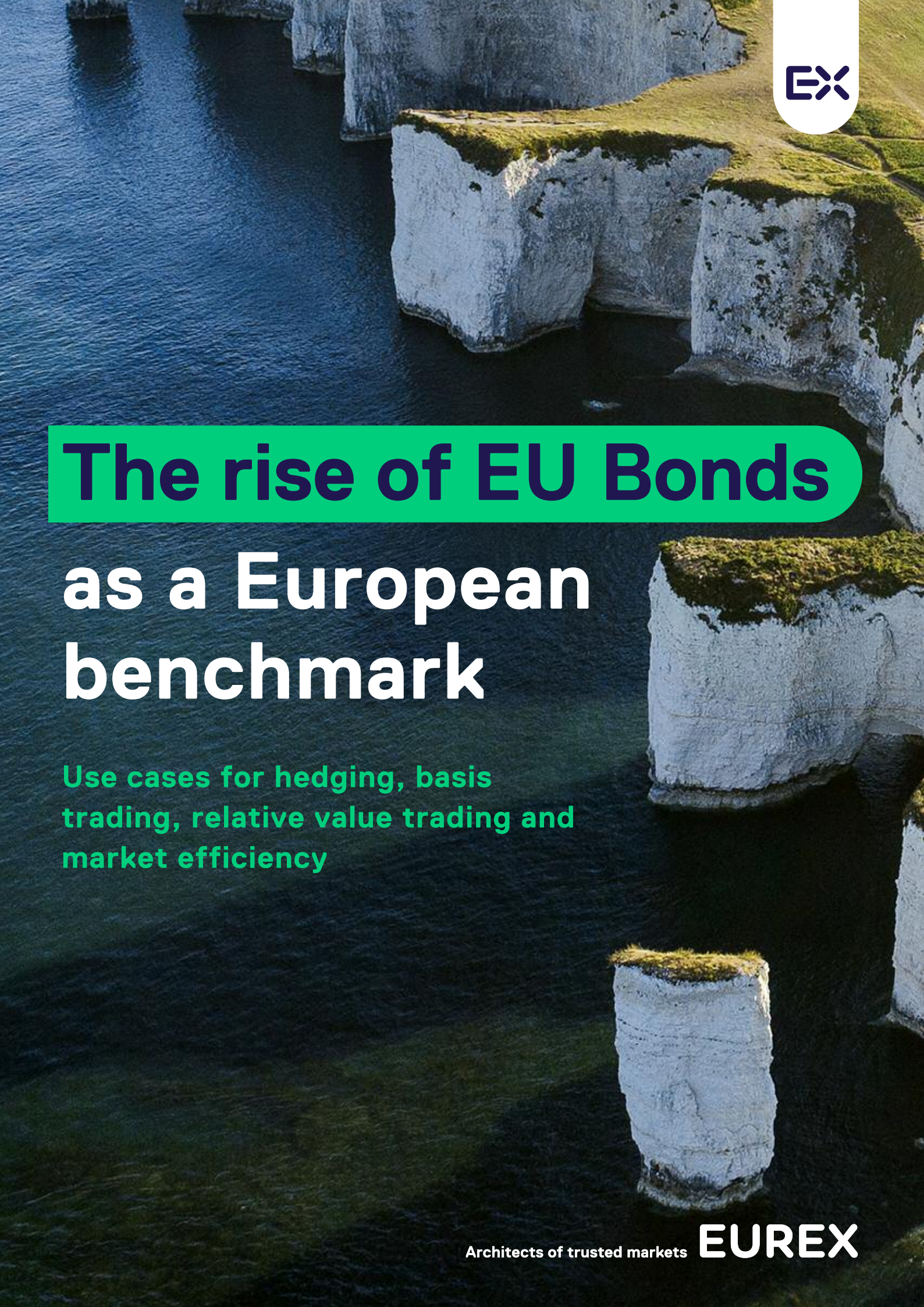


The rise of EU Bonds as a European benchmark

Use cases for hedging, basis trading, relative value trading and market efficiency

Architects of trusted markets EUREX

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Background

The European Union (EU) has a unique position in global capital markets. Unlike typical supranational entities or individual sovereign issuers, the EU is underpinned by the collective economic strength of its member states. With an aggregate GDP of approximately €15 trillion, the Euro area ranks just behind the U.S. and China. In line with this scale and growing solidarity, the EU's approach to collective debt issuance continues to evolve from discrete policy instruments (financial stability, crisis tools, geo-strategic development) towards a more collective, unified funding approach. With the 2026 annual funding target of €180 billion for EU bonds, outstanding volume is expected to reach c. €900 billion by the end of 2026, making the EU the 5th largest issuer in Europe.

A futures contract on EU Bonds (FBEU) was listed on Eurex in 2025. The contract is physically settled against a basket of EU Bonds with maturities between 8 years and 12 years, offering portfolio managers a dedicated instrument for hedging and risk management in this increasingly important market. In this white paper, we illustrate FBEU's further potential as a highly complementary tool for the complex hedging requirements of the European SSA and government bond market, with its diverse range of domestic issuers. In addition, we highlight the rapidly evolving repo market for EU Bonds and why this is a core building block for identifying relative value opportunities, and how views can be expressed through trading in the futures market.

FBEU as the hedging alternative

The European fixed income derivatives market is predominantly built around the major EU economies, with a diverse range of listed futures and options referencing debt issued by Germany (FGBL), France (FOAT), Italy (FBTP) and Spain (FBON) ("the 10Y majors"). For portfolio managers holding EU government bond positions outside of the majors, such as for example from Portugal or Belgium, the current practice is to cross-hedge using the existing major futures contracts. However, while risk profiles overlap, each country is ultimately driven by its own fiscal dynamics, credit trajectory, and political landscape.

This means that cross-hedging with the liquid major contracts can become less effective when domestic factors lead pricing.

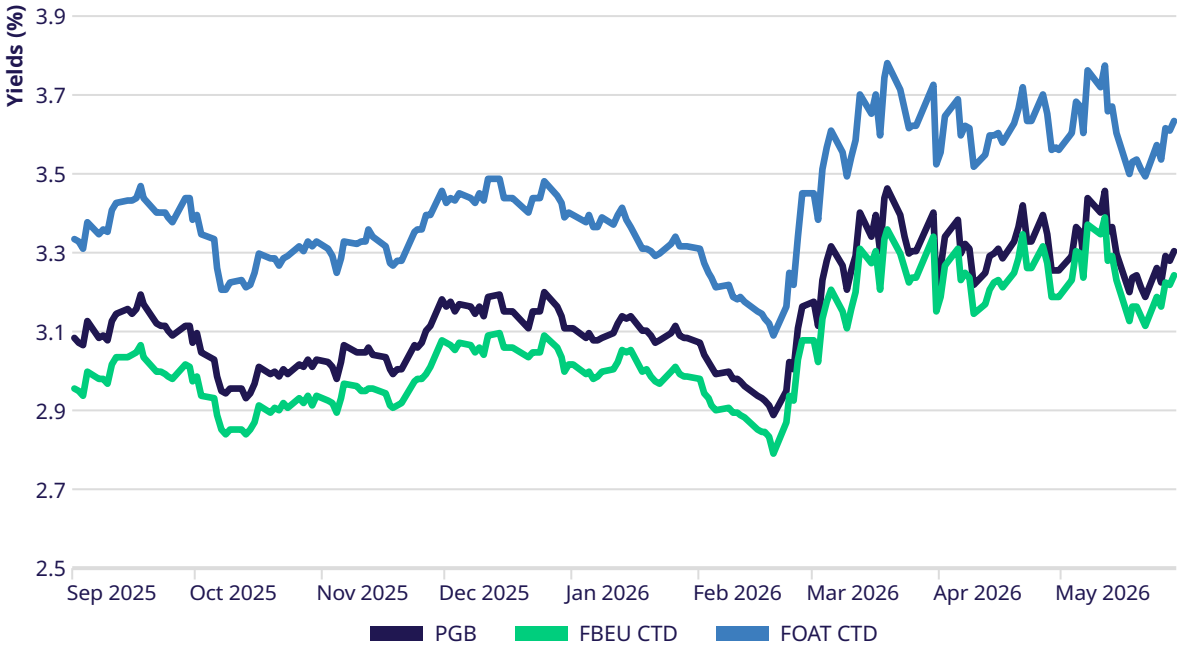
FBEU offers a fundamentally different proposition. Underpinned by EU-level debt, it incorporates European-wide fundamentals and risk factors rather than those of any single member state. This makes it a potentially more representative hedging instrument for diversified sovereign bond portfolios: one union, one issuer, shared fundamentals.

Hedging PGB with FBEU

Taking Portugal's 10-year debt (PGB) as an example, we compared its yield movement with the FOAT cheapest-to-deliver (CTD) bond and the FBEU CTD for the period since the launch in September 2025. While the trends are similar across all three yields, the graph shows that the FBEU CTD's yield has consistently traded at a closer level to PGB than FOAT CTD's yield. This is further supported by the yield correlations, with PGB vs FBEU CTD exhibiting a correlation of 99.5 percent, while PGB vs FOAT CTD trails marginally at 98.8 percent.

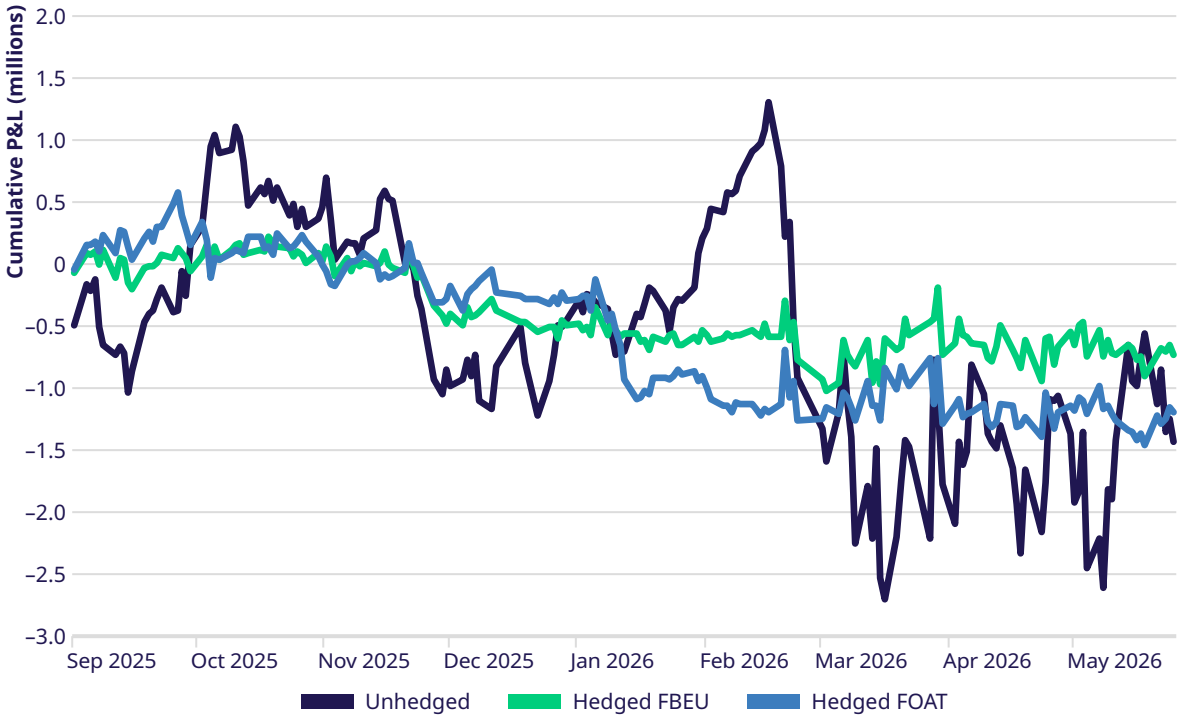
In cumulative P&L terms, the unhedged long position in PGB lost €1.44 million on the €100 million notional over the entire period. When hedged with FOAT, the position lost €1.20 million, while when hedged with FBEU, a significantly better outcome was achieved with a loss of €0.73 million. This result is based on minimum duration adjustment, where the hedging ratio is only recalibrated after each quarterly roll.

Figure 1: Yield-level Comparison: PGB vs FBEU CTD vs FOAT CTD



Further, the effectiveness of FBEU vs FOAT as a hedging tool was evaluated by running a back-test, assuming a long position in PGB with a notional of €100 million as the hedge item. The hedge ratio is calculated based on the modified duration of the PGB and the CTD of each respective futures contract, rebalanced after each futures roll to replicate standard market practice. The position runs from September 2025 to June 2026.

Figure 2: Cumulative P&L: Unhedged vs FBEU Hedged vs FOAT Hedged



Correlation Analysis: EU Bonds as a pan-European hedging proxy

For portfolio managers currently cross-hedging non-major sovereign exposures with German, French, or Italian derivatives, the question is whether FBEU can be a complementary tool. To evaluate its potential, we conducted a daily correlation study of 10-year bond yields for 2026 YTD. The EU yield is based on the current CTD of the FBEU contract, while all other countries' yields are based on 10-year bonds issued in the first half of 2025 (maturing 2035). The results demonstrate that EU bond futures provide a superior fit for hedging most non-major European sovereign exposures. Since FBEU is underpinned by EU-level debt rather than any single member state's obligations, it is the only derivative product that captures the shared European-wide fundamentals embedded in non-major sovereign yields. This mitigates the idiosyncratic political and fiscal risks inherent in sovereign-specific hedging instruments.

The results are consistent with the hedging study. EU bonds achieve correlations above 0.93 for each of the benchmarked countries. While individual sovereign benchmarks may occasionally offer the highest correlation for a specific country, for example, Germany correlates most highly with the Netherlands, while Italy correlates most highly with Greece, no single sovereign consistently ranks as the best hedging proxy across all countries. EU bonds, by contrast, steadily rank as either the highest or second-highest correlated instrument across all seven countries tested, with correlations ranging from 0.9396 (Ireland) to 0.9955 (Portugal).

Italian BTP futures, while showing strong correlation with peripheral sovereigns such as Greece and Spain, are a less effective proxy for core EU countries. Similarly, German Bund futures excel for core countries but show relatively weaker correlations with peripherals. This pattern underscores the fundamental limitation of cross-sovereign hedging. While such strategies often involve multiple countries' bond futures, the hedge is still likely to be predominantly driven by a single sovereign instrument. As a result, it retains the inherent risk of embedding country-specific political and fiscal factors that may diverge sharply from the exposure being hedged.

FBEU, by contrast, is based on a Triple-A rated underlying that incorporates European-wide fundamentals rather than those of any single member state. This positions it as a structurally more representative hedging instrument for diversified sovereign bond portfolios. Where German Bund futures leave peripheral exposures underhedged and Italian BTP futures may introduce unwanted credit risk for core holdings. FBEU bridges this gap. It offers a single, unified instrument that captures the common European rate dynamics shared across all member states. As such, FBEU serves as both a complement to existing sovereign futures and a standalone pan-European benchmark applicable to rates hedging, portfolio construction, and relative value strategies.

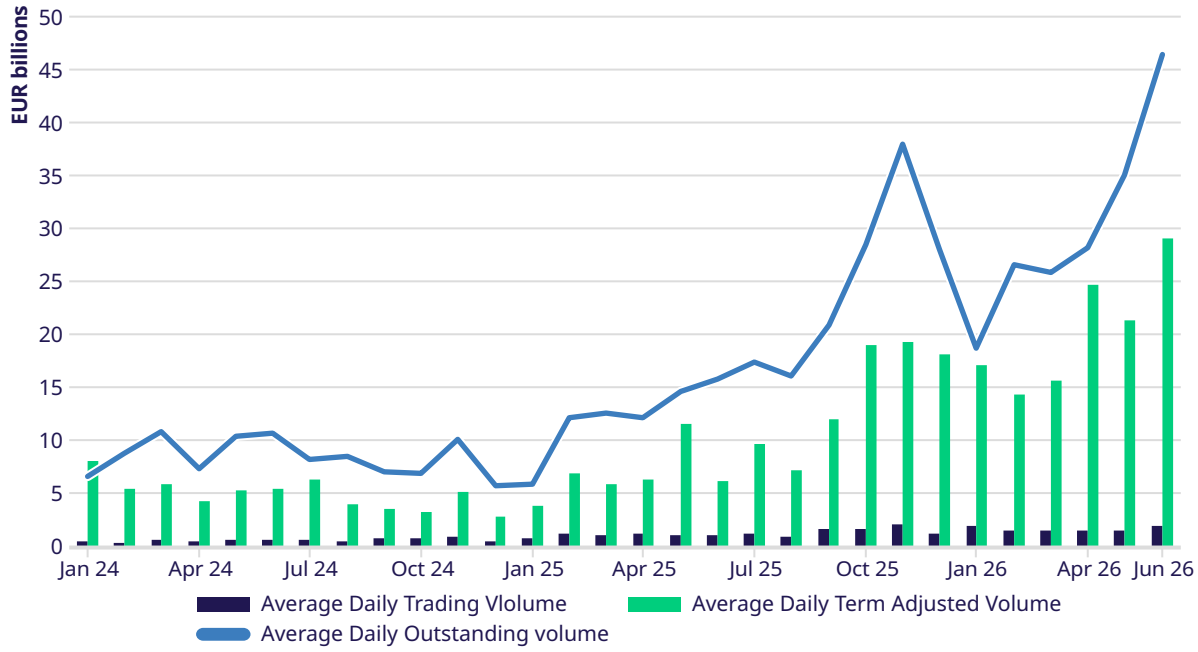
Figure 3: Correlation of 10-Year Bond Yields, daily, 2026 YTD

	Netherlands	Austria	Belgium	Ireland	Spain	Portugal	Greece
European Union	0.9886	0.9876	0.9949	0.9396	0.9932	0.9955	0.9855
Germany	0.9943	0.9859	0.9901	0.9396	0.9812	0.9823	0.9600
France	0.9833	0.9834	0.9914	0.9369	0.9792	0.9795	0.9604
Italy	0.9632	0.9679	0.9793	0.9210	0.9867	0.9903	0.9972

EU Bond repo market development

Repo market activity in EU Bonds is steadily increasing and recent market research indicates that more than 50 unique EU Bonds are now trading daily in the spot-next market.[1] Eurex Repo's own single ISIN trading volumes in EU Bonds mirror the broader repo market trajectory.

Figure 4: Eurex Repo EU Bonds Repo Market Development - Single ISIN Volume



The progress in the repo market for EU bonds provides a compelling case for discussions on relative value (spread and basis) trading opportunities within the triangle of cash, repo, and derivatives (futures/swaps) markets with three value drivers:

1) **Repo Rates:** CTD specialness, financing choice, balance sheet costs, funding stress
2) **Delivery optionality:** interest rate volatility, yield curve volatility, bond basket diversity
3) **Structural mispricing:** supply-demand imbalances, liquidity differences, diverse use cases

[1] H. Siemßen. Ahead of the Curve - EU Bond repo market: gaining traction. 3rd June 2026. Commerzbank Research

Eurex capabilities to support relative value trading opportunities in EU Bonds

FBEU trades can be executed outright in the central limit order book or, for bespoke strategies with the functional Eurex Trade Entry facilities:

- Exchange for Physicals (EFP): EU Bond bond-futures basis trading.
- Exchange for Swap (EFS): views on EU Bond swap spreads, expressed via futures.

Financing is a critical component of swap spread/basis trading:

- Single ISIN EU Bonds repo trading on Eurex Repo F7: a core liquidity pool for European government bonds and SSAs repo with maximum balance sheet netting opportunities through multilateral netting at Eurex Clearing.
- Eurex Repo GC Pooling® EU Basket: seamless financing of securities eligible for delivery into the EU Bond futures contract.
- European Commission's EU Repurchase Agreement (Repo) Facility is now established on Eurex Repo, providing market confidence.

Margin efficiencies remain central to the economics of relative value trading opportunities:

- Eurex Repo applies portfolio margining approaches in determining the margin requirements in the Single ISIN and GC Pooling repo markets.
- Eurex Clearing offers cross-margining between government bond futures (including EU Bond futures) and OTC interest rate swaps.
- Eurex Clearing has longer-term plans to offer cross-margining between repo and derivative transactions.

FBEU for interest rate management via EFP and EFS

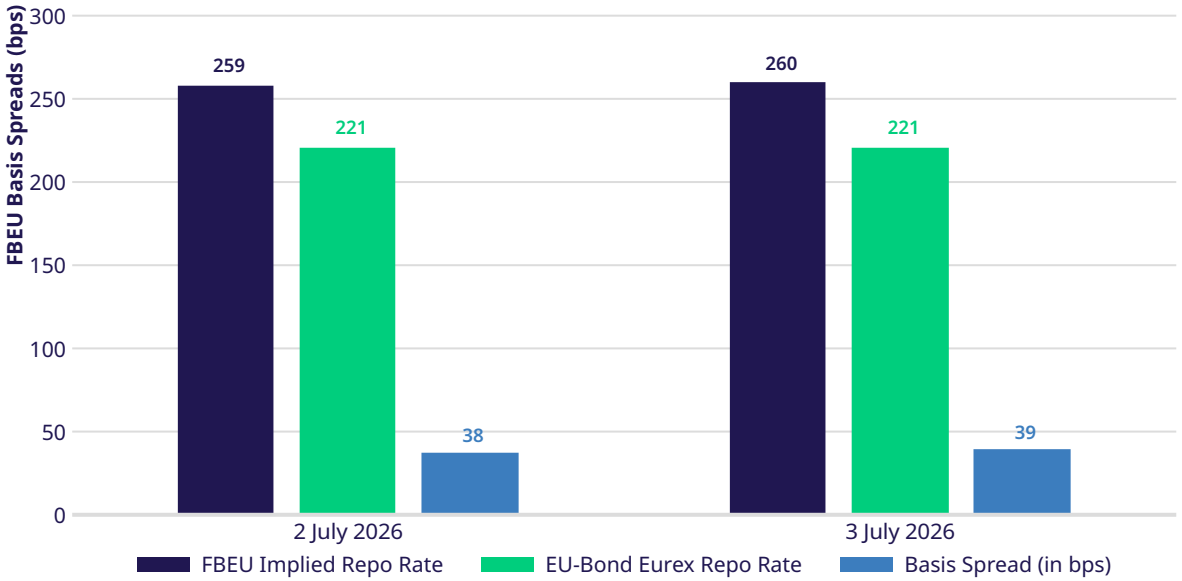
FBEU trades can be executed outright in the central limit order book or for bespoke strategies with the following Eurex Trade Entry facilities.

As European sovereign debt issuance reaches historic highs, market participants face unprecedented liquidity, hedging, and balance sheet challenges. To manage this high-supply environment, trading desks are increasingly relying on **European Bond Futures Basis Trading (EFP)** and **Exchange for Swaps (EFS)** mechanisms. While primary demand has remained robust (yielding strong bid-to-cover ratios), the increased volume of supply creates localized supply/demand imbalances, yielding significant volatility in the "basis" (the price spread between physical cash bonds and corresponding futures contracts).

To illustrate the practicality of EU Bond and FBEU basis trading within the Eurex ecosystem, we present the following example. The current ECB deposit rate stands at 2.25 percent. The dark blue bars represent the actual repo rate quoted on Eurex for the Sep CTD bond (EU000A3K4ES4) on 2 July and 3 July, both at 2.21 percent. On the same two days, we derive the implied repo rate using the FBEU daily settlement price and the corresponding CTD cash bond price, presented in the green bars. The resulting basis spreads, shown in blue, indicate an edge of 38 bps on 2 July and 39 bps on 3 July. For simplicity, this preliminary example assumes that the actual repo rate remains flat until the delivery date of the front-month contract, and that the cheapest-to-deliver bond does not switch during the holding period.

As a relatively young futures product, FBEU may exhibit periodic mispricing in its implied financing cost relative to the actual repo rate, presenting basis trading opportunities. Over July, the average basis spread on days with observable repo activity was approximately 47.8 bps in absolute terms. The implied repo rate frequently deviated from the actual repo rate by a meaningful margin. As FBEU matures and liquidity deepens, these inefficiencies should narrow toward the tighter basis spreads seen in established contracts. In the meantime, current pricing dynamics offer early participants an opportunity to engage in basis trading, contributing to price discovery while capturing favorable returns.

Figure 5: Euro-Bond Futures Basis Trades: FBEU Implied Repo Rate vs Actual Repo Rate vs Basis Spread



Key takeaways:
EU Bond futures offer more than just a hedge

1. Maturing cash and repo markets for EU bonds are complemented by growing market liquidity in futures.
2. EU bond futures notably improve proxy futures hedging results for numerous European issuers versus existing alternatives.
3. Relative value strategies offer opportunities across the cross-section of derivatives (futures/swaps), cash and repo markets.
4. FBEU futures trades can be executed via the central limit order book and the Eurex TES facilities such as EFP and EFS, increasing market efficiency.

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