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The Lighter Sort of Futures Trading

Eurex Introduces Mini-DAX® Futures – Five Euro per Point

Eurex Exchange started to offer a new equity index contract on 28th October 2015 – the Mini-DAX® Futures contract (FDXM). It has a value of five euro per point; in contrary to the known DAX® Futures (FDAX) with 25 euro per point. TRADERS´ interviewed Ralf Huesmann, SVP Eurex product development about this product.

» TRADERS´: Ten years ago there was an important addition in futures trading with the E-Mini S&P 500. Why do you think is now the right time to introduce Mini-DAX® Futures?

Huesmann: The subject of a lighter DAX® Futures contract has been discussed on and off during the past between Eurex Exchange and market participants – although at a considerably lower DAX® level. In the past there was no clear opinion among market participants, but during the recent months this changed: the market asked for lighter DAX® Futures and prefers the solution with a parallel listing of the existing DAX® Futures in combination with the Mini-DAX® Futures.

TRADERS´: What is the target group of Mini-DAX® Futures?

Huesmann: The Mini-DAX® Futures complement the big DAX® Futures. Now one has the possibility to hedge smaller positions. Furthermore, clients who did not trade the DAX® because of its weight may be interested in trading the smaller brother – that means we expect private clients as well as active semi professional traders to join. In addition there are new arbitrage possibilities between Mini-DAX® and DAX® Futures, other derivatives and the cash market.

TRADERS´: What is the advantage of the Mini-DAX® Futures for traders?

Huesmann: The DAX® at about 10,000 points equals a DAX® Futures contract value of about €250,000. This is no problem for institutional traders, but it is clearly above the international level of index futures.

The use of Mini-DAX® Futures depends on the hedging demand or the investment volume of the individual user. If you trade on your own account and you have no problem with the initial margin of €20,000, then you will continue trading the FDAX. But the margin for the Mini-DAX® is only a fifth, about €4,000, and that may be

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interesting for private investors and traders. But also the traders of banks who need precise hedging of €400,000 can now realise it exactly – for example by buying eight Mini-DAX® Futures.
Note, that Mini-DAX® Futures are only traded in full points instead of half points like the FDAX. This is because of the high DAX® value, it bundles liquidity and increases the so-called tick value, which means the value of the minimal price movement. Togehter with the Mini-DAX® Futures, Eurex Exchange offers a contract that equals the DAX® Options, which have also a value of five euro per point.

TRADERS´: How can you guarantee volume in the lighter contract?

Huesmann: Eurex Exchange cannot guarantee a certain turnover, but we have lined up Market Makers and from the launch date onwards they have been actively quoting the product, therefore we see a small spread already. We also know that some brokers offer the Mini-DAX® Futures to their clients right from the start and therefore we already have a good price picture as well as significant volume.

TRADERS´: What are your expectations regarding volume generation?

Huesmann: In 2014 the equivalent of €1.5 billion was traded in Germany in CFDs (contracts for differences). This equals about 80,000 contracts of the Mini-DAX® Futures per day. Of course, not the entire CFD market will move to the Mini-DAX® Futures, but this gives a good indication about the potential in this market segment.

TRADERS´: Do you think that this product will cannibalise some market segments?

Huesmann: Usually Eurex derivatives are used for hedging of certificates, therefore the Mini-DAX® Futures allow a better fine tuning. However, one can never anticipate any shifts of liquidity from one product to another one.

TRADERS´: Do you think about other Mini Futures as well? Which ones?

Huesmann: We only discussed the Mini-DAX® Futures until now, but maybe in the future that will change. Especially the products on the German stock market indices are getting heavier because of the reinvestment of the dividends. The MDAX® for example is at about 20,000 points with a futures contract value of about €100,000 – and that is quite heavy for a mid-cap contract compared to other international index futures.

TRADERS´: Our readers are also interested in the trading hours. The E-Mini S&P 500 is very popular because it is traded nearly all day long. Will there be any changes in the future?

Huesmann: The Mini-DAX® Futures cover the European and American trading hours, which means from 8.00 until 22.00 CET.

TRADERS´: As we wrap up, can you provide an insight how Mini-DAX® Futures were developing since launch?

Huesmann: We have seen positive developments since launch in terms of volume and participation. To date, our record trading day saw a volume of more than 15,000 contracts; so far more than 100 participants have been active in the product. We are positive on the Mini-DAX® Futures development as the market clearly told us that the users were ready – and our new product is already confirming that demand during the first two weeks of trading. «

Update

On 12th November the following press release of Eurex Exchange reached our editorial team:

Since 28th October we offer in parallel to our popular DAX® Futures (FDAX) new Mini-DAX® Futures (FDXM) which have a significantly lower contract value of only five euro. After only eleven days of trading the newly listed contracts have generated considerable liquidity.

- over 100 active trading participants
- average spread of one to two ticks
- open interest currently at about 3,400 contracts
- on average 7,500 traded contracts per day
- twelve active market makers