BAX™

International spread between BAX and Eurodollar (BED spread)

Situation

A trader is looking at the difference in the short-term yield curves between Canada and the United States and expects Canadian rates to rise faster than US rates.

Objective

The trader would like to profit from a trade where both yield curves move in the same direction but at different speeds.

Strategy

To take advantage of a possible widening of the December BED (BAX – Eurodollar) spread, the trader should sell December BAX futures and buy December Eurodollar futures, on a currency adjusted notional basis.

February 8	**Month**	**BAX**	**EURODOLLAR**	**BED SPREAD**
	September	93.65	96.47	282 basis points
	December	93.75	96.27	252 basis points
Action :	A. Sell 62 December BAX contracts @ 93.75 B. Buy 40 December Euro contracts @ 96.27 Assume C$1.55 = US$1.00			
February 15	Close the positions			
	Month	**BAX**	**EURODOLLAR**	**BED SPREAD**
	September	92.65	96.01	336 basis points
	December	92.74	95.85	311 basis points
Action :	A. Buy 62 December BAX contracts @ 92.74 B. Sell 40 December Euro contracts @ 95.85			

Results

Note: 1 tick = $25

Market	**Calculations**	**Profit & Loss**
BAX	62 x (93.75 – 92.74) x 100 basis points per contract x $25 per basis point	C$156,550
EURO	40 x (96.27 – 95.85) x 100 basis points per contract x $25 per basis point @ 1.5500 (USD/CAD)	(C$65,100)
Profit on the position		**C$91,450**

Comment

Taking a view in the interest rate spread between different countries is a common arbitrage activity. Playing this spread through the futures market makes the trade more transparent, less expensive and much more flexible.

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