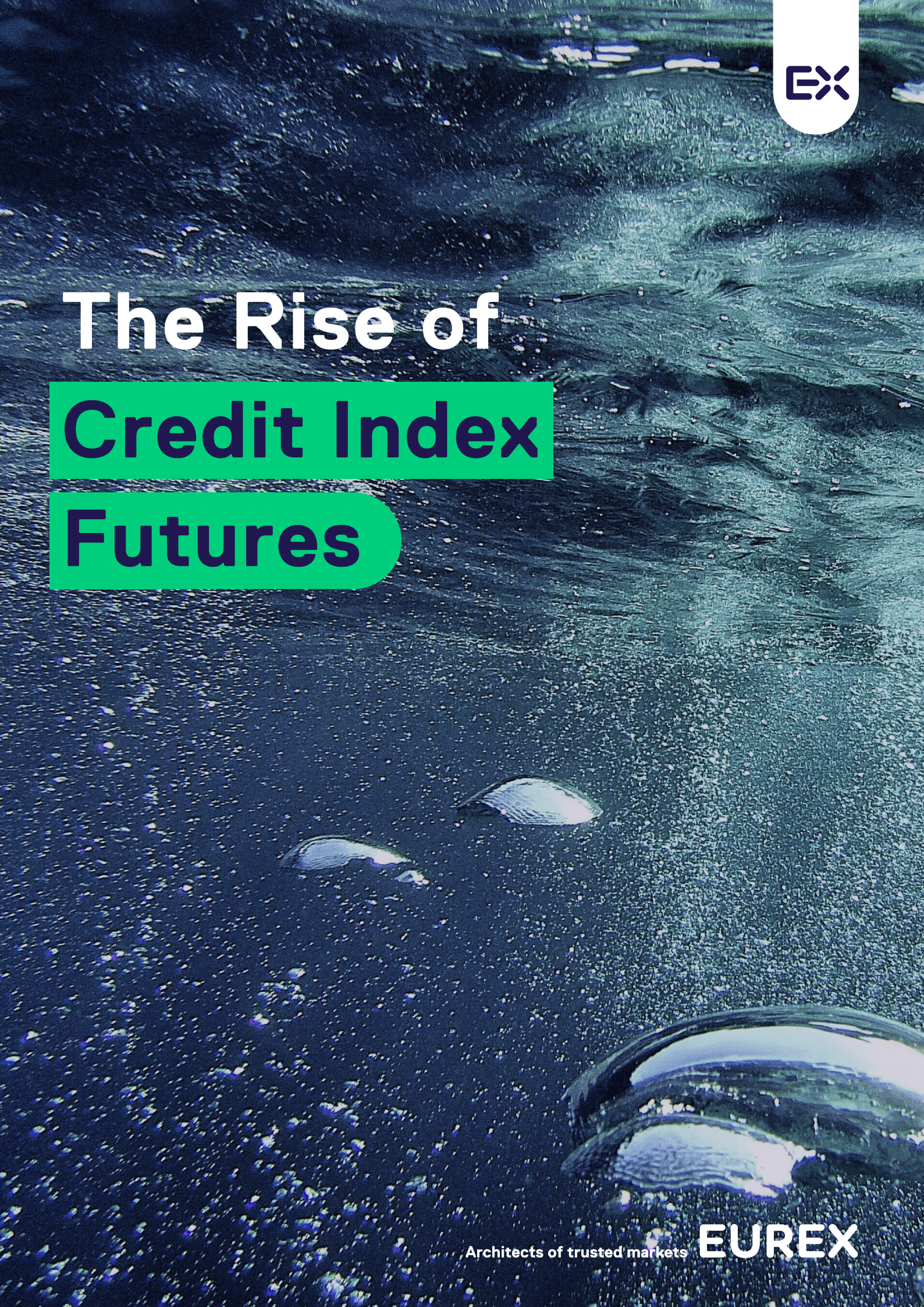

The Rise of
Credit Index
Futures
Architects of trusted markets
EUREX

The Rise of Credit Index Futures

Contents

Introduction

Credit index futures represent one of the most significant shifts in market structure in credit markets for decades, offering market participants an efficient, transparent, and scalable instrument for managing exposure to benchmark corporate bond indices.

These futures enable investors to hedge or take long leveraged positions on benchmark fixed income indices without the complexities and costs traditionally associated with over-the-counter (OTC) derivatives such as credit default swaps (CDS) and Total Return Swaps (TRS) while providing more flexibility in allocating capital than using fully funded fixed income ETFs.

Eurex pioneered this segment and now offers futures on six global underlying indices provided by Bloomberg.

Since their launch in 2021, the exchange has seen dramatic volume and open interest growth in the contracts, with open interest today at around EUR 2–2.5 billion.

More and more clients from different parts of the trading ecosystem are entering the market to deploy diverse trading strategies, bringing breadth and diversity to the market and creating a virtuous circle of liquidity.

This whitepaper explores the development of credit index futures, their comparison with other credit market instruments, and their potential to enhance how investors approach trading in the credit markets.

The development of Credit Index Futures

The global corporate bond market has boomed over the past 15 years, tripling since 2008. At the end of 2023, the market had $34 trillion in outstanding notional.

Despite this growth, trading in credit derivatives has remained largely OTC and the market has lacked a standardized, exchange-traded product to meet the needs of investors looking to hedge or gain exposure to the key indices in the market.

Since 2021, Eurex has pioneered the development of credit index futures, a suite of products designed to provide efficient access to the fast-growing credit market.

Since launch, the products have seen significant increases in adoption among a variety of investors owing to their ability to simplify credit market exposures, which have historically been managed through more complex, less transparent instruments.

Eurex first launched Euro Investment Grade Index Futures. In 2022, Eurex expanded its product suite by introducing Euro High Yield Index Futures, catering to investors interested in higher-yielding, higher-risk corporate bonds.

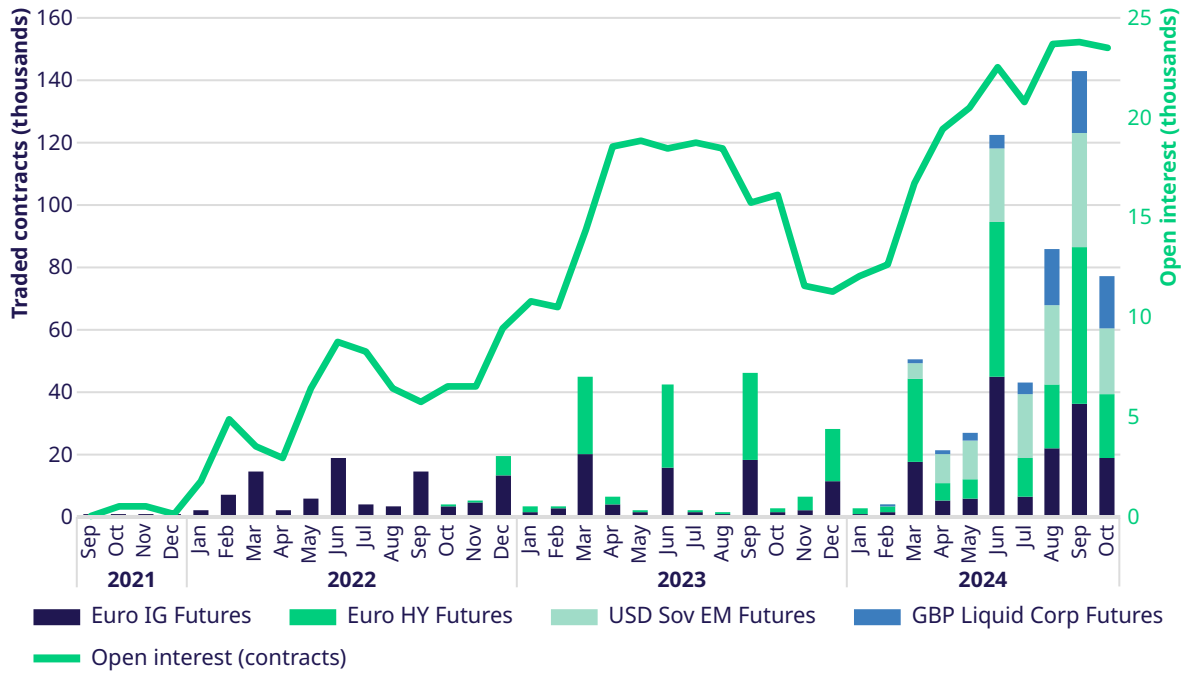
By 2024, the product suite had gone global with the introduction of Sterling Corporate Index Futures, US Dollar Emerging Market Sovereign Index Futures, and US Dollar Investment Grade and High Yield Index Futures.

This expansive product suite allows investors to take exposure to fixed income benchmarks across different currencies and regions, marking a significant step toward a comprehensive global credit index futures market.

All these futures are based on Bloomberg indices, recognized as among the most reliable and comprehensive benchmarks in the fixed income industry.

Volume and open interest in the contracts have grown sharply in 2024 as more clients and liquidity providers adopt the contract. Today, Eurex boasts 11 order book market makers and eight off-screen liquidity providers with over 40 buy-side firms actively trading in the products.

Credit Index Futures – Monthly volume development (contracts)



The rise of Credit Index futures: Why now?

Despite the enormous size of the global credit markets, the development of listed derivatives has lagged other asset classes. Several factors explain why credit index futures as an asset class are only now emerging, with the main reasons being technological advancements in the credit and fixed income markets, increasing client demand, and greater sell-side support.

Technological advancements in fixed income markets

The credit market has undergone a significant transformation in recent years in the wake of the growth of electronic trading. Historically, trading corporate bonds and related instruments was a manual process, limiting liquidity and scalability and increasing market entry barriers.

However, the growth of electronic trading and advances in technology across the market made it easier for market participants to trade large, complex portfolios of bonds in a more automated, efficient manner.

The growth of electronic trading and the development of the ETF market also paved the way for credit index futures, as it created an ecosystem in which market makers could price and trade indices that consist of hundreds, if not thousands, of individual bonds.

Increasing client demand

As the market became more electronic and volumes in the underlying products and ETFs increased, more client types entered the market.

“ We inherited a technology set and market structure that enabled the pricing of thousands of different bonds in the fixed income ETF market. This enabled sell-side market participants to make markets in the product. We also found initial support from our buy-side clients, as the products solved a series of headaches related to accessing the credit market.
Credit Index Futures are an exchange-traded product that closely tracked their benchmark while providing the flexibility to execute either via an order book or a bilateral trade with their preferred counterparty at the same time.

Davide Masi
Fixed Income Derivatives Product R&D, Eurex

Today's credit markets boast a deep ecosystem of different client types.

Credit index futures offer a compelling solution to several different types of investors active in the credit market:

- **Real money asset managers:** Asset Managers that handle large portfolios for pension funds, insurance companies, and other institutional investors need products that closely match the risk and return profiles of the indices against which they are benchmarked. Credit index futures allow them to take more precise exposure to broad credit indices, avoiding tracking error and basis risk of alternative credit derivatives, such as credit default swaps.

- **Relative value hedge funds:** Hedge funds, particularly those deploying relative value strategies, benefit from a broader array of tools in the credit derivatives ecosystem. Credit index futures offer an additional means of trading arbitrage and risk management across credit markets, complementing existing products such as credit default swaps and total return swaps.

- **CTAs (commodity trading advisors) and quantitative funds:** Hedge funds that deploy short-term, high-leverage strategies require highly liquid and capital-efficient instruments. Credit index futures offer low collateral requirements and margin efficiencies, allowing them to take positions in credit markets previously inaccessible in the OTC markets or inefficient and ill-suited to their strategies.

Sell-side support

The final key factor that created the conditions to launch credit index futures was the growth of sell-side support for the products. The sell-side, which includes banks as well as electronic liquidity providers, played a critical role in the development of credit index futures.

Historically, banks and other institutions were reluctant to support these products due to technological limitations and a perceived lack of demand following earlier failures in developing listed credit index products.

However, as electronic trading infrastructures improved and buy-side demand increased, many firms across the sell-side embraced the opportunity to provide liquidity and support for credit index futures.

Additionally, sell-side institutions benefit from the ability to package exposures in various forms – CDS, total return swaps, ETFs, and now futures – allowing them to offer more comprehensive solutions to their clients.

"The timing to launch credit futures couldn't have been better. Having learned the lessons from past launch attempts, these products have been carefully designed to mirror existing investor benchmarks. Investors can utilize the futures to quickly hedge, get beta to their benchmark, or use it as a cash management tool for fund flows.
We've seen year-on-year growth fueled by further adoption with our global clients & demand is stronger than ever. Credit index futures are an asset class in their own and deserve a place in every investor's toolbox.

Antony Harden
Futures and Delta 1 Sales Trader, Goldman Sachs

How Credit Index Futures compare to other credit instruments

Credit index futures fill a gap in the market as they provide an alternative to more established tools such as credit default swaps, total return swaps, and ETFs. Each of these instruments has its own strengths and weaknesses, and credit index futures bring benefits that make them particularly attractive in contrast to the other products in the credit ecosystem.

1. Credit default indices

Credit default swap indices are OTC instruments offering exposure to corporate bond defaults across an index. The products offer pure exposure to credit risk and do not include the interest rate risk inherent to corporate bonds. Credit index futures, by contrast, provide exposure to both credit and interest rate risk, as market participants are, in essence, taking exposure to an index made of corporate bonds.

The index methodology of the two products is also different. The major credit default swap indices are typically comprised of a limited number of equally weighted issuers and the index composition is only rebalanced once every six months.

Credit index futures, on the other hand, do not limit the number of issuers represented in the index, which can vary from about 250 issuers in EUR HY to over 700 issuers in EUR IG and 1,000 issuers for USD IG. The issuers are not equally weighted but weighted on the notional amount outstanding represented in the index by their bonds. In addition, the index is rebalanced once a month, ensuring the composition reflects new bond issuances and issuers' rating changes.

Another key difference is the accessibility and transparency of the products. Credit default swap indices are traded OTC, requiring clearing agreements and complex pricing infrastructure. Credit index futures are exchange-traded and centrally cleared, providing transparent pricing and reducing counterparty risk to the minimum.

2. Total return swaps (TRS)

Total return swaps are another popular tool for taking exposure to corporate bond indices. Like credit index futures, TRS provide synthetic exposure to a basket of bonds, or more commonly, a fixed income index. However, the key difference lies in the fact that, like credit default indices, TRS are traded OTC and bilaterally cleared. This makes TRS less accessible to certain market participants and less transparent in terms of pricing and liquidity.

Credit index futures, by contrast, are centrally cleared and listed on Eurex, a regulated exchange, providing continuous price discovery and reducing counterparty risk. This makes them a more efficient and transparent alternative for many investors.

3. Fixed income and credit ETFs

Fixed income and credit exchange-traded funds (ETFs) have become a popular vehicle for passive exposure to corporate bond indices. Like credit index futures, ETFs provide a broad and diversified exposure to a basket of bonds. However, ETFs are fully funded securities and less flexible regarding leverage and capital usage compared to futures.

Credit index futures allow investors to take leveraged positions more easily, as futures contracts only require a small fraction of the total amount of notional traded. This makes futures a more capital-efficient tool for investors looking to maximize their exposure to credit risk without tying up large amounts of capital.

> **“ Credit Index futures are an adjacent product to TRS regarding the index it tracks and the way they trade.**
> **With TRS and credit index futures you have a total return bond index that includes the interest rate component of the portfolio as well as the credit spread. With the CDS, you only have the credit spread component. But, the main difference is the index composition – the TRS and credit index future is based on a much broader credit index with around 850 issuers in the EUR IG index compared with 125 names in the iTraxx Europe Main. It is a much broader representation of the credit universe.**

Andreas McGrath
Fixed Income ETF Trader, Susquehanna International Group

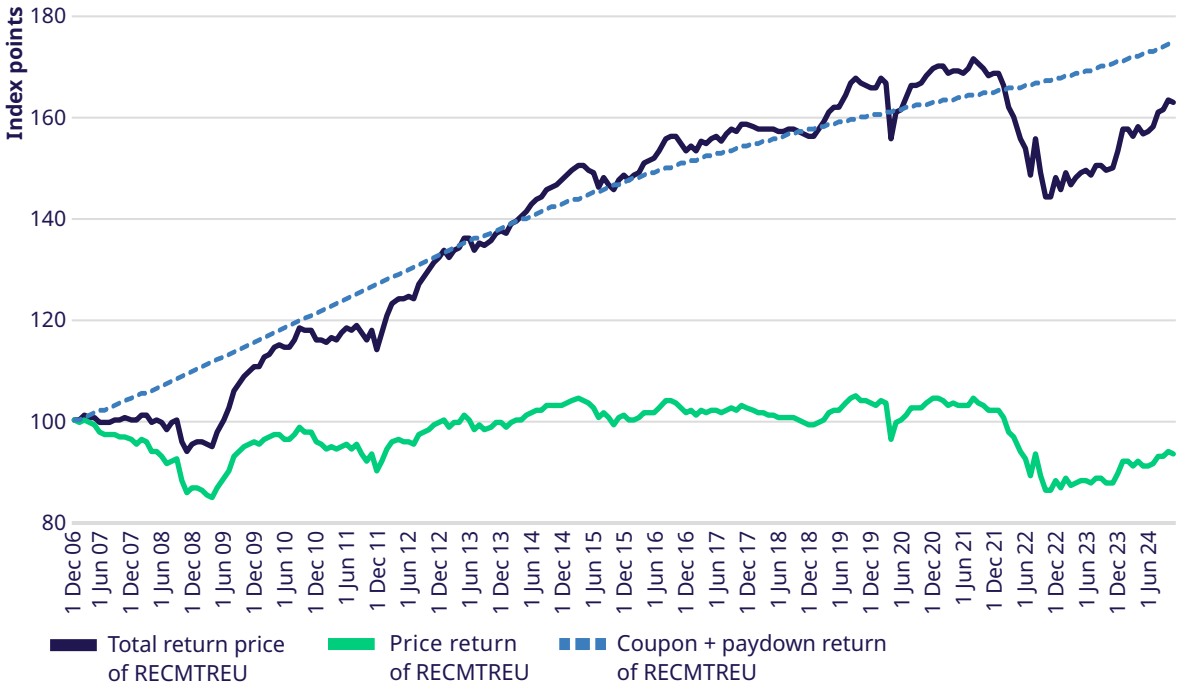
How Credit Index Futures work

As noted above, credit index futures are total return products incorporating both the performance of the bonds and the coupons paid. An investor who longs the future gains exposure to the overall index composition of the bonds in the index and all the coupons paid.

Under the model, whenever a bond in the index pays a coupon, the cash is kept in the index composition as cash and re-invested in the index during the monthly rebalancing.

This makes a significant difference in returns. Between 2007 and 2022, the price return of the index was 13.5%, whereas the total return increase was 44%. However, it also simplifies the process for investors who would otherwise have to buy the bond on one venue and lend it out on another to capture the same returns. With the future, both are integrated into one product.

Difference between total and price return index calculation



The products are cash settled, cleared at Eurex Clearing and available on a wide array of platforms.

Eurex credit index futures provide a variety of use cases for investors across the institutional market. The main four use cases are:

Portfolio hedging: Temporarily reducing market exposure of a portfolio and protecting it from market downturns

Cash and liquidity management: Using available cash to take additional exposure to the global credit markets

Tactical and relative value trading: Expressing market views and arbitrage strategies across cash bonds, ETFs, CDS and TRS markets

Portfolio overlays: Adjusting portfolio exposures relative to the actual funded amount

“The fact that it is an exchange-traded product makes it much easier for us to access. We have historically used CDS indices to toggle beta exposures as they have been the most liquid. However, that hedge is imperfect, and we are forced to accept the basis risk. In many portfolios we aren’t permitted to short-sell cash bonds or ETFs, so the futures allow us to get the short exposure we need for hedging or to get tactical leveraged long exposure. The market is liquid and efficient, and it is easier to trade than a basket of cash bonds.

Loretta Jackson
Global Fixed Income Portfolio Manager, Schroders

> **“We see multiple use cases. A key case concerns flow management: with the credit futures you can create a buffer and use this to manage the portfolio’s daily liquidity requirements.**
> **Another use case is around new issues. Passive managers are typically active in the primary market, meaning that portfolios can be long in terms of duration and spread relative to the index they are tracking, especially in heavy new-issue months. Previously you could only hedge the duration component by shorting interest rate futures. However, with these corporate futures, you are able to hedge both the duration and the spread, so it minimizes the risk relative to the index.**

Shanil Shah
Head of Fixed Income ETF Portfolio Management, EMEA, DWS Group

The global expansion of Credit Index Futures

The expansion of Eurex’s Credit Index Futures suite with the launch of sterling and dollar products represents a significant step towards creating a global ecosystem for trading credit benchmarks in a listed environment.

In September, Eurex introduced futures on US dollar-denominated investment grade and high yield bonds.

This global expansion brings several benefits to the market. As the global credit market continues to grow, investors managing international portfolios require tools that can help them manage risk across multiple currencies and regions.

In addition, the growing ecosystem for credit index futures creates a virtuous circle of liquidity, making all the products in the suite more tradable.

Credit index futures also offer significant capital efficiency advantages, particularly for institutional investors who need to manage large portfolios across multiple jurisdictions and asset classes. Bringing more products for these investors to the same platform, cleared at the same clearinghouse, further increases the capital efficiencies.

One of the key challenges for any new financial product is the development of liquidity. When Eurex first launched its Euro Investment Grade

and Euro High Yield Index Futures, the majority of trading was conducted off-book, with transactions negotiated bilaterally between market participants and liquidity providers rather than being traded in the open order book.

However, as the product gained traction, more participants began trading in the order book, leading to greater transparency and price discovery. The trend toward order book trading reflects the growing maturity of the product and the confidence that investors have in its liquidity. Today, approximately 50% of trading in credit index futures is conducted in the order book, with the rest taking place off-book.

Open interest is often a metric looked at by market participants to gauge the degree of liquidity of a product in listed derivatives markets. However, while open interest in the product suite has grown, the liquidity available for trading far exceeds it. According to dealers and Liquidity Providers active in Credit Index Futures, and as reported by their clients trading the products, it is possible to trade sizes that are multiple times the open interest in each single Credit Index Futures contract.

This is possible because Credit Index futures are just one piece of the overall credit ecosystem. Therefore, the products can "borrow liquidity" from the adjacent markets of FI ETFs, Corporate bonds, TRS and sometimes even CDS Indices.

Specifically, market makers looking at hedging a Credit Index Futures exposure often consider their overall level of credit exposure homogeneously across these instruments. In the credit futures market, as with other similar markets, market makers are not looking to match buyer and seller flows for each futures contract they trade. Instead, they often integrate them within their books and manage the risk accordingly.

Therefore, the liquidity market makers can offer in the futures is significantly higher than what is available in the order book and the level of open interest at any given time. While buy-side firms can have limitations on the open interest of a product they can own, the depth of the bond market provides ample liquidity for market markers to offer tight futures prices against.

As Eurex expands its credit index futures suite to include US dollar-denominated products, liquidity trends are expected to be similar to the earlier launched products. Initially, liquidity will likely be concentrated off-book, particularly for large institutional trades. However, as more participants enter the market and confidence in the product grows, order book trading is expected to increase.

"Trading credit is now as easy as trading duration. Credit futures are very liquid today. Liquidity doesn't just mean open interest and traded volume.
To create a liquid futures market, you need a block trade facility to trade off-screen, a give-up facility to bring the futures from your execution broker to your clearing broker, a liquid underlying market, and aggressive pricing for the basis between the futures and the underlying. If you have those four factors, you have a liquid market. We have them 100% in credit futures.

Stefan Schmidt
Senior Derivatives Trader, Union Investment

Conclusion: The future of Credit Index Futures

The long-term vision for Eurex in credit index futures is to continue driving the electronification and futurization of the credit markets. Several key trends are likely to shape the future development of the products.

As more market participants adopt credit index futures, liquidity will continue to improve, making these products more attractive to a wider range of investors.

At the same time, Eurex will introduce more specialized products, including futures on more niche credit indices. This could include futures on regional or sector-specific indices, offering even more precise tools for managing credit risk.

One key advantage of credit index futures is their capital efficiency. Eurex is working to enhance portfolio margining benefits, allowing investors to optimize their collateral usage across multiple asset classes. This will make credit index futures even more attractive to institutional investors.

As credit index futures gain traction in global markets, Eurex aims to establish itself as the go-to exchange for fixed income benchmark futures. Eurex is well-positioned to capitalize on the growing demand for global credit exposure by providing a comprehensive product suite across multiple currencies and regions.

As liquidity continues to grow and the product suite expands globally, credit index futures will provide an essential tool for managing risk and optimizing portfolios in an increasingly varied and deep credit landscape.

> **“ Adding the dollar futures was an important step and something we have wanted to see for some time. There is significant room for expansion from here. However, bringing in additional users and client types is just as important as additional products. Markets work best when you have different types of users and a breadth of clients.**

Dan Philip
Institutional Sales & Trading, Jane Street

Contract specifications

Parameters	EURO IG	EURO HY	USD EM Sovereign	GBP Corporate IG	USD IG	USD HY
Eurex product code	FECX	FEHY	FUEM	FGBC	FUIG	FUHY
Currency	EUR	EUR	USD	GBP	USD	USD
Contract multiplier	EUR 1,000	EUR 200	USD 200	GBP 200	USD 25	USD 100
Contract notional (est.)	~EUR 150,000	~EUR 55,000	~USD 20,000	~GBP 25,000	~ USD 75,000	~ USD 50,000
Tick size / tick value	0.01 / EUR 10	0.02 / EUR 4	0.01 / USD 2	0.01 / GBP 2	0.1 / USD 2.5	0.01 / USD 1
Minimum block trade size	30 contracts	100 contracts	100 contracts	100 contracts	60 contracts	80 contracts
Minimum black trade size in notional (est.)	~EUR 5,000,000	~EUR 5,000,000	~USD 2,000,000	~GBP 2,500,000	~ USD 5,000,000	~ USD 5,000,000
Trading hours	7:50 to 22:00 CET	7:50 to 22:00 CET	7:50 to 22:00 CET	7:50 to 22:00 CET	7:50 to 22:00 CET	7:50 to 22:00 CET
Expiry cycle	QUARTERLY – The three nearest quarterly months of the March, June September and December cycle.					
Last trading day / final settlement day	Third Friday of each maturity month if this is an exchange day; otherwise, the exchange day immediately preceding that day. Final settlement day is the exchange day immediately following the last trading day.					
Final settlement price	The final settlement price is established by Eurex on the final settlement day of the contract and is based on the closing price of the index on the last trading day.					
Daily settlement price	Determined from the volume weighted average of all transactions during the minute before 17:15 CET (reference point), provided that more than 5 trades transacted within this period.					
Bloomberg code	LXYA Index	AHWA Index	XZSA Index	XZRA Index	BBEA Index	BBLA Index
Refinitiv code	0#FECX:	0#FEHY:	0#FUEM:	0#FGBC:	0#FUIG:	0#FUHY:

About Eurex

Eurex stands for the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. Being architects of trusted markets characterized by market liquidity, efficiency and integrity, we provide our customers with innovative solutions to seamlessly manage risk. On the trading side, we master-mind the most efficient derivatives landscape by pioneering ingenious products and infrastructures as well as by building 'smart' into technology – offering a global product range, operating the most liquid fixed income markets in Europe and featuring open and low-cost electronic access. As central counterparty, Eurex Clearing builds trusted relationships with and amongst market participants, enabling effective risk management and delivering high efficiencies to clients.

Architects of trusted markets

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