

# LIFFE CONNECT<sup>®</sup>: Trading packs and bundles

[www.liffepacksandbundles.com](http://www.liffepacksandbundles.com)

## ● LIFFE CONNECT<sup>®</sup> strategy trading

LIFFE CONNECT<sup>®</sup> allows the creation and trading of a variety of multi-legged recognised strategies, each of which is executed as a single transaction at a single strategy price. A strategy trade to buy 10 White Packs (Dec 2005 front month), for example, would result in a long position in the following delivery months: of 10 White Dec (Dec 2005), 10 White Mar (Mar 2006), 10 White June (Jun 2006) and 10 White Sep (Sep 2006) contracts. A LIFFE CONNECT<sup>®</sup> strategy is therefore a simple and efficient way of executing a combination of outright delivery months without legging risk and offers market users the flexibility of managing or closing the position in either the strategy or the outright market.

Once a strategy trade has been executed on LIFFE CONNECT<sup>®</sup>, each constituent delivery month of the strategy is allocated an individual leg price by LIFFE CONNECT<sup>®</sup>. These leg prices will be consistent with both the strategy price traded and the current price of each constituent delivery month in the outright market.

## ● Pack and Bundle strategies

A *Pack* comprises four consecutive quarterly delivery months in the same colour grouping. As with a Strip, a trader would either buy each leg of the strategy or sell each leg to go long or short of the Pack. However, Packs are more standardised than Strips in that each constituent leg must be for the same volume, e.g., a long 5 lot White Pack position consists of 5 lots long White Dec, 5 lots long White Mar, 5 lots long White Jun and 5 lots long White Sep.

A *Bundle* comprises consecutive quarterly months (starting from the front month) at equal volume per leg, covering two or more years, e.g., a Two Year Bundle would consist of an equal numbers of lots (all long or all short) in each of White Dec, White Mar, White Jun, White Sep, Red Dec, Red Mar, Red Jun and Red Sep.

## ● Pricing and quoting Packs and Bundles

The LIFFE CONNECT<sup>®</sup> convention for quoting Packs and Bundles is based on the **net total change in price** between the current trading session's market price and the previous day's settlement price.

For example, using the following data:

March	Bid 98.865	Offer 98.870	Previous Settlement 98.870
June	Bid 98.750	Offer 98.755	Previous Settlement 98.760
September	Bid 98.545	Offer 98.550	Previous Settlement 98.555
December	Bid 98.210	Offer 98.215	Previous Settlement 98.215

A bid in the Pack would be calculated as:  
 $(-0.005) + (-0.010) + (-0.010) + (-0.005) = -0.030$

An offer in the Pack would be calculated as:  
 $(0.000) + (-0.005) + (-0.005) + (0.000) = -0.010$

## ● 'Implied in' pricing

Since 7 November 2005, the "implied in" functionality which was previously only available for Calendar Spreads and Butterflies, is now also available for Packs, Bundles, Strips and Condors. This means that prices in the constituent "outright" months will feed into the relevant Pack and Bundle market and show as tradeable prices.

For example, the following individual orders in the front four (White) quarterly delivery months:

EURIBOR	bid size (lots)	bid	offer	offer size (lots)	settlement
White Mar	12,000	97.605	97.610	10,000	97.610
White Jun	6,000	97.390	97.395	7,500	97.400
White Sep	750	97.240	97.245	5,000	97.250
White Dec	500	97.140	97.145	2,000	97.150

would generate an "implied in" price in the White Pack as follows:

EURIBOR	bid size (lots)	bid	offer	offer size (lots)
White Pack 'Implied In'	500	- 0.035	- 0.015	2,000

## ● Annualised quoting convention

An alternative pricing convention for Packs and Bundles, the "annualised convention", is based on the **net average change in price**. This quotation may be calculated from the LIFFE CONNECT® quotation simply by dividing the quoted price on LIFFE CONNECT® by the number of legs making up the Pack or Bundle. The result is typically quoted in basis points.

The main advantage of the LIFFE CONNECT® pricing convention is that it offers greater granularity of pricing. Where the annualised convention results in a rounding of the average price to a specified tick size, the LIFFE CONNECT® pricing convention does not require rounding and allows trading at tighter prices. Although the LIFFE CONNECT® total change pricing convention may lead Pack and Bundle spreads and prices to appear larger, this is purely because the quotes are shown as totals rather than averages.

## ● Further information

For more information on trading Packs and Bundles on LIFFE CONNECT®, please contact:

Interest Rate Product Management

**Tel:** +44 (0)20 7379 2222  
**Fax:** +44 (0)20 7929 1050  
**Email:** packsandbundles@liffe.com  
**Web:** www.euronext.com/packsandbundles  
www.liffepacksandbundles.com