

## EMD-ER2 Intercommodity Spread Tool

Available May 19, 2008 on CME Globex • Ticker Symbol EMD-ER2

For customers looking for a way to transfer their E-mini Russell 2000 open interest to a liquid trading alternative, CME Group is launching a new intercommodity spread tool between E-mini S&P MidCap 400 (EMD) and E-mini Russell 2000 (ER2) futures. This spread tool will be listed for trading on CME Globex and will trade in .05 increments.

### About the Spread

When a market participant establishes a long position in the listed spread, he/she simultaneously establishes long positions in the E-mini S&P MidCap 400 index futures and short positions in the E-mini Russell 2000 index futures at a 1:1 ratio. Likewise, shorting the listed spread is equivalent to shorting E-mini S&P MidCap 400 futures and going long E-mini Russell 2000 futures at a 1:1 ratio.

The multipliers for E-mini S&P MidCap 400 futures, E-mini Russell 2000 futures and the spread are all defined as \$100 per index points. Effectively, the spread represents the differential of the two indexes, with approximately \$71,000 - \$80,000 notional value on either side. The spread shall be quoted in net index points; e.g., when E-mini S&P MidCap 400 futures and E-mini Russell 2000 futures are trading at 807.00 and 712.00 respectively, the spread shall be quoted at  $807.00 - 712.00 = 95.00$  index points.

Following a spread trade, the price of the E-mini S&P MidCap 400 futures leg shall be set at the settlement price of the E-mini S&P MidCap 400 contract from the previous day. The price of the E-mini Russell 2000 leg shall be determined by the E-mini S&P MidCap 400 leg price - the net index point differential. For example, if the spread is traded at a net index point differential of 95.00, and the E-mini S&P MidCap 400 leg price is same as the settlement price from the previous day, the E-mini Russell 2000 futures leg shall be priced at  $807.00 - 95.00 = 712.00$ .

For each E- mini Russell 2000 futures contract month, two spreads will be listed for trading: One against the same contract month for E-mini S&P MidCap 400 futures, and one against the next nearest quarterly contract in the listing cycle for E-mini S&P MidCap 400 futures (e.g., the June E-mini Russell 2000 futures contract will be paired with the June 2008 E-mini S&P MidCap 400 contract in one spread listing, and the September 2008 E-mini S&P MidCap 400 contract for a second spread listing. The pairings will be listed for trading provided that both the underlying legs are listed for trading.

**For more information on this tool, contact the CME Group Equity Products team at 800.331.3332 or email [info@cmegroup.com](mailto:info@cmegroup.com).**



®, CME®, CME Group®, Globex® and E-mini® are trademarks of the Chicago Mercantile Exchange Inc. Russell 2000 is a trademark the Russell Investment Group. S&P SmallCap 600™ and S&P MidCap 400™ are trademarks of The McGraw-Hill Companies, Inc.

## SMC-ER2 Intercommodity Spread Tool

Available on the CME Globex platform • Ticker Symbol SMC-ER2

CME Group offers a new way to transfer your small-cap U.S. equity exposure to the E-mini SmallCap 600 futures contracts, by listing a new intercommodity spread between E-mini S&P SmallCap 600 futures and E-mini Russell 2000 futures.

The spread is based on a 2:1 contract ratio (2 E-mini S&P SmallCap 600s futures to 1 E-mini Russell 2000 futures) to reflect the difference in notional value between the two contracts, with approximately \$85,000 - \$90,000 notional value on either side of the spread. It is then priced on the difference in index points x \$100 (the multiplier), and trades in .05 increments. The anchor leg of the spread is fixed based on the previous day's settlement price of E-mini S&P SmallCap 600 futures.

*For example:* When the E-mini S&P SmallCap 600 futures and the E-mini Russell 2000 futures are trading at 448.20 and 854.20 respectively, the spread is quoted as  $2 \times 448.20 - 854.60 = 41.80$  index points ( $896.20 - 854.60 = 41.80$ ). If the spread widened to 42.80, this would represent a \$100 move ( $42.80 - 41.80 = 1.00$ , x \$100 = \$100).

You can go long or short the intercommodity spread, as illustrated below:

### Long the Spread

Long two E-mini S&P SmallCap 600s – short one E-mini Russell 2000 contract

### Short the Spread

Short two E-mini S&P SmallCap 600s – long one E-mini Russell 2000 contract

Following a spread trade, the price of the E-mini S&P SmallCap 600 futures leg will be set at the settlement price of the E-mini S&P SmallCap 600 contract from the previous day. The price of the E-mini Russell 2000 leg is then determined by the following formula:

**$2 \times \text{E-mini S\&P SmallCap 600 leg price} - \text{the net index point differential}$**

*For example:* Assume the spread is traded at a net index point differential of 41.90, and the E-mini S&P SmallCap 600 leg price is 448.20 (the settlement price from the previous day). In this scenario, the E-mini Russell 2000 index futures leg =  **$(2 \times 448.20) - 41.90 = 854.50$** .

For each E-mini Russell 2000 index futures contract months, two spreads will be listed for trading: one against the same contract month in the E-mini S&P SmallCap 600 index futures, and one against the next nearest quarterly contract available in the E-mini S&P SmallCap 600 futures listing cycle.

*For example:* In the first spread listing, a Sep 07 E-mini Russell 2000 contract is paired with a Sep 07 E-mini S&P SmallCap 600 contract; in the second spread listing, the Sep 07 E-mini Russell contract is paired with a Dec 07 E-mini S&P SmallCap 600 contract. Both underlying legs must be listed for the pairings to be listed for trading.

**For more information on how to trade this spread, contact the CME Group Equity Products team at 800.331.3332 or email [info@cmegroup.com](mailto:info@cmegroup.com).**