



Interest Rates-keeping your head above Zero

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Eurodollars are deposits denominated in US dollars at banks outside the US, and thus are not under the jurisdiction of the Federal Reserve. Consequently, such deposits are subject to much less regulation than similar deposits within the US, allowing for higher margins. There is nothing “European” about Eurodollar deposits; a US dollar denominated deposit in foreign nations would likewise be deemed Eurodollar deposits. Neither is there any connection with the euro currency.

The Eurodollar futures contract refers to the financial futures contract based upon these deposits, traded at the CME. Each CME Eurodollar futures contract has a notional or “face value” of \$1,000,000, though the leverage used in futures allows one contract to be traded with a margin of about \$1500. Trading in Eurodollar futures is extensive, thus offering uniquely deep liquidity. Prices are quite responsive to Fed policy, inflation, and other economic indicators.

CME Eurodollar futures prices are determined by the market’s forecast for the delivery date of the 3-month USD LIBOR interest rate. The futures prices are derived by subtracting that implied annualized interest rate from 100.00. For instance, an anticipated annualized interest rate of 5.0% will translate to a futures price of 95.00. On the expiry day of a contract, the contract is valued using the current fixing of 3-month LIBOR.

As with other fixed rate instruments, if the yield rises, the price of the futures contract falls, and vice versa. If you believe that interest rates will fall, you would then buy a CME Eurodollar futures contract because you expect the contract price to rise and vice versa. If you believe rates will rise, you would sell or short-sell a CME Eurodollar futures contract because you expect the contract price to fall. This retains the normal inverse relationship between the price and the yield of interest rate securities.

Now after the brief history lesson lets get down to making some money. In the current environment with rates effectively close to 0 at 0.15% there is undoubtedly more room to the upside than downside. Economists will continue to debate over deflation/inflation, prognosticating on if there are more shoes to drop, if the credit crunch is behind us, whether the bottom is in real estate and if the stock market has overshot to the downside but the bottom line is no body knows. What I do know is that eventually things will improve and when they do the Federal Reserve will presumably raise interest rates and the Euro-dollar should react accordingly. Do not dive in head first, we may be getting in early and need to roll positions multiple times before we get the trade right, but if and when rates start to move up - which we trust will be sooner rather than later - MB Wealth will have clients exposed to take advantage. Will you be there with us?

Chart 1 is a front month continuation chart for the Euro-dollar contracts starting in mid 1999 to the present, so roughly the last 10 years. Chart 2 is the March 2010 Euro-dollar contract starting in 2002. Make your own deduction but we will be advising clients to get short outright futures looking to parlay the position in addition to purchasing long dated put options. On the charts below you will see a history of interest rates starting in 2000 plus a brief explanation of how the Euro-dollar contracts have moved relative to interest rate adjustments. We issued a Silver report in November believing it was the best trade I had seen in my career, well ladies and gentlemen shorting the Euro-dollar may be better.

Risk Disclosure: The risk of loss in trading commodity futures and options can be substantial. Before trading MB Wealth recommends that you should carefully consider your financial position to determine if commodity trading is appropriate for you. All funds committed should be purely risk capital. Past performance is no guarantee of future trading results. There are no guarantees of market outcome stated, everything stated above are our opinions. Calculations of profit and loss have not factored in commissions and fees.

Chart 1 Front month continuation Euro-dollar futures



Chart 2 March 2010 Euro-dollar futures



01/2000, 5.45
02/2000, 5.73
03/2000, 5.85
04/2000, 6.02
05/2000, 6.27
06/2000, 6.53
07/2000, 6.54
08/2000, 6.50
09/2000, 6.52
10/2000, 6.51
11/2000, 6.51
12/2000, 6.40
01/2001, 5.98
02/2001, 5.49
03/2001, 5.31
04/2001, 4.80
05/2001, 4.21
06/2001, 3.97
07/2001, 3.77
08/2001, 3.65
09/2001, 3.07
10/2001, 2.49
11/2001, 2.09
12/2001, 1.82
01/2002, 1.73
02/2002, 1.74
03/2002, 1.73
04/2002, 1.75
05/2002, 1.75
06/2002, 1.75
07/2002, 1.73
08/2002, 1.74
09/2002, 1.75
10/2002, 1.75
11/2002, 1.34
12/2002, 1.24

01/2003, 1.24
02/2003, 1.26
03/2003, 1.25
04/2003, 1.26
05/2003, 1.26
06/2003, 1.22
07/2003, 1.01
08/2003, 1.03
09/2003, 1.01
10/2003, 1.01
11/2003, 1.00
12/2003, 0.98
01/2004, 1.00
02/2004, 1.01
03/2004, 1.00
05/2004, 1.00
06/2004, 1.03
07/2004, 1.26
08/2004, 1.43
09/2004, 1.61
10/2004, 1.76
11/2004, 1.93
12/2004, 2.16
01/2005, 2.28
02/2005, 2.50
03/2005, 2.63
04/2005, 2.79
05/2005, 3.00
06/2005, 3.04
07/2005, 3.26
08/2005, 3.50
09/2005, 3.62
10/2005, 3.78
11/2005, 4.00
12/2005, 4.16
01/2006, 4.29

02/2006, 4.49
03/2006, 4.59
04/2006, 4.79
05/2006, 4.94
06/2006, 4.99
07/2006, 5.24
08/2006, 5.25
09/2006, 5.25
10/2006, 5.25
11/2006, 5.25
12/2006, 5.24
01/2007, 5.25
02/2007, 5.26
03/2007, 5.26
04/2007, 5.25
05/2007, 5.25
06/2007, 5.25
07/2007, 5.26
08/2007, 5.02
09/2007, 4.94
10/2007, 4.76
11/2007, 4.49
12/2007, 4.24
01/2008, 3.94
02/2008, 2.98
03/2008, 2.61
04/2008, 2.28
05/2008, 1.98
06/2008, 2.00
07/2008, 2.01
08/2008, 2.00
09/2008, 1.81
10/2008, 0.97
11/2008, 0.39
12/2008, 0.16
01/2009, 0.15

*January 00' rates 5.25%

*By September 9 months later rates higher by 1.0% Euro \$ moved down(left quadrant of top chart)

*Bottoming process in Euro \$ as rates start to top out Summer of 2000

*Rates fall below 5% and Euro \$ move up under way

*By the end of 01' rates are below 2% and Euro \$ has moved from 93 to 97 or \$10,000/per futures

*Much of 03'-04' hovers at the highs Euro \$ is at 99 when rates stay at 1%

*1% for 12 months July 03'-June 04'

*Summer of 04' Federal reserve starts raising rates and what does the Euro \$ do?

*For 27 straight months the Euro \$ stair steps lower

*Rates stay at 5.25% for just over 1 year and the Euro \$ hovers around 94.50

*Just to review rates go from 1% to 5.25% and the Euro \$ goes from 99 to 94.50 which represents \$11,250/per futures

*Starting in July of 07' the Federal Reserve starts lowering rates

*Little do we know the ramifications of easy lending, or the coming housing bubble/credit crunch

*Is the American dream really for everyone to own a home, more like the America nightmare

*Again displayed is the inverse relationship, when rates drop from 5.25% to the current 0.15% the Euro \$ appreciates

*Where do we go from here?

*We expect rates to be moving higher.....not overnight

*But words the Limbo made famous how low can you go?

*We are advising put options and shorting the futures.

*The key here will be allowing yourself enough time

*Only you can answer that question. We are advising

currently to get short March 2010 but can customize a

strategy based on your risk tolerance, available capital and time frame