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Mini Futures Contracts
on the S&P/TSX 60TM Index

SXM

Introduction to SXM Futures

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What is a Futures Contract?

- Futures are contracts to buy or sell a specific product:
 - At a specific price
 - On a specific date
- Physical or cash settlement
- If not closed before expiration, both parties must fulfill the contractual agreement on the settlement date.

Options vs. Futures

Options

Buyer has the right, not the obligation, to take possession of the underlying.

Only has a value on expiration if it is “in-the-money”.

Profit or loss not realized until position offset.

Pay a premium.

Futures

Buyer and seller have an obligation unless the position is closed prior to expiration.

Has a value as soon as the price changes in relation to the entry price.

Position “marked-to-market” at the end of every trading day.

No upfront cost, put up a “performance bond” or “good faith deposit”.

What is an Equity Index?

- An index is used as a method of measuring changes in a basket of stocks.
- Represents a specific sector or sectors of the market or the entire market
- Often used by financial news outlets as a way of tracking the overall performance of the market or a portfolio.

Equity Index Futures

- Equity index futures closely follow the price movement of their respective indices.
- Typically referred to as the “underlying” or “cash” indices.

Cash Market vs. Futures Market

Cash (or Spot) Market

Not represented by one central location. There is a network of buyers/sellers.

Reflects the value under the current market conditions.

Price reflects immediate settlement and delivery.

Participants usually assume the risk of counterparty default.

Futures Market

Futures market traded at a central location known as an exchange.

Reflects spot price plus the opportunity cost that arises from delayed settlement.

Price reflects a “cost of carry” such as financing, storage and insurance.

Clearing corporation assumes the risk.

What is the S&P/TSX 60™ Index?

- Tracks the 60 largest companies traded on the TSX and is a “notional” index.
- Includes companies from 10 industry sectors:
 - Materials
 - Financials
 - Consumer discretionary
 - Consumer staples
 - Telecom
 - Health care
 - Industrials
 - Energy
 - Utilities
 - Information technology

Source: Standard & Poor's, S&P/TSX 60 Index Fact Sheet, December 31, 2010

Why is it important?

- Represents a market capitalization of 1,144 billion dollars.
- This is approximately 73% of Canada's equity market capitalization.
- Provides insight into the overall direction of the Canadian equity market to help with investment decisions.

Source: Standard & Poor's, *S&P/TSX 60 Index Fact Sheet*, December 31, 2010

S&P/TSX 60 Index Mini Futures (SXM)

- SXM futures are priced in relation to the S&P/TSX 60.
- Contract multiplier = C\$50.00 times the current level of the SXM futures contract value.
 - Example:
SXM futures contract value = 800 index points
 $800 \text{ index points} \times \text{C\$}50.00 = \text{C\$}40,000.00$

SXM Minimum Price Fluctuation

- Minimum price fluctuation = tick
- 1 tick = 0.10 index points
 - $0.10 \times \text{C}\$50.00 = \text{C}\5.00 per contract

SXM Price Fluctuation

S&P/TSX 60 VALUE	LONG SXM P&L	SHORT SXM P&L
801.50	+\$75.00	-\$75.00
801.00	+\$50.00	-\$50.00
800.50	+\$25.00	-\$25.00
800.00	0	0
799.50	-\$25.00	+\$25.00
799.00	-\$50.00	+\$50.00
798.50	-\$75.00	+\$75.00

Index Value →

Based on one contract



SXM Trading Hours

- Early session:
6:00 a.m. to 9:15 a.m. EDT

- Regular session:
9:30 a.m. to 4:15 p.m. EDT

Which Expiration Month to Trade

- Quarterly expiration:
 - March (H)
 - June (M)
 - September (U)
 - December (Z)

SXM Contract Settlement

- Cash settled based on the official opening level of the index on the final settlement day as provided by Standard & Poor's.
- Last trading day
 - Trading day prior to the final settlement day.
- Final settlement day
 - 3rd Friday of the contract month.

Why Use SXM Futures?

- Trade a directional bias on the Canadian economy.
- Hedge a portfolio.
- Take advantage of index arbitrage.