

MASTERCLASSTRADER.com

Micro Index Futures Fact Sheet and Spread Stuff

Contract Specs:

	MICRO E-MINI S&P 500	MICRO E-MINI NASDAQ-100	MICRO E-MINI RUSSELL 2000	MICRO E-MINI DOW
CONTRACT SIZE	\$5 x S&P 500 Index	\$2 x Nasdaq-100 Index	\$5 x Russell 2000 Index	\$0.50 x DJIA Index
TRADING HOURS AND VENUE	CME Globex: Sun-Fri: 5pm to 4:00pm, Mon-Fri: daily trading halt from 3:15pm to 3:30pm			
MINIMUM TICK	0.25 Index points	0.25 Index points	0.10 Index points	0.50 Index points
DOLLAR TICK VALUE	\$1.25 per contract.	\$0.50 per contract.	\$0.50 per contract.	\$0.50 per contract.
PRODUCT CODE	MES	MNQ	M2K	MYM
CONTRACT MONTHS	Five months in the March Quarterly Cycle H, M, U, Z, H (March, June, September, December, March)			
DELIVERY	Cash settlement to Final Settlement Price			
TERMINATION	8:30a.m. CT on 3 rd Friday of contract delivery month Trading in expiring futures terminates at 8:30 am on Last Day of Trading.			

Margins Offset for Spreads

A 'margin offset' is how an exchange calculates a margin for a spread. The offset recognises that the spread has less risk and therefore less margin is required. Most exchanges will normally quote a per cent number for market offset. The margin payable for a spread is the sum of margins for each contract, then discounted by the offset amount.

This table is derived from the CME site:

	MES	MNQ	MYM	MRT
MES	-	1:1 75%	1:1 85%	1:2 80%
MNQ	1:1 75%	-	1:1 55%	1:2 70%
MYM	1:1 85%	1:1 55%	-	1:2 70%
M2K	2:1 80%	2:1 70%	2:1 70%	-

These ratios show the margin discount for spreads in the micros. Example: MNQ:M2K is 1:2. For margin, that would be:

$$[(1 * 1500) + (2 * 710)] * 70\% = 2920 * 0.7 = 2044$$

Where 1500 is the Nasdaq margin and 710 is the Russell margin.

So the spread margin in this case is $2920 - 2044 = \$876$.

Why is this useful?

Well of course you must know what you are being margined. Aside from that obvious point, these margin offset ratios can be a starting point for working out your spread ratios.

HOWEVER (a big however), these ratios are slow to be adjusted. An exchange can of course adjust them whenever they want, as often as daily, but many opt for quarterly adjustment.

As traders, we do not have to follow that ratio. We can create our own ratios (but just not get the full margin discount). A ratio should be adjusted to match relative volatility, and then possibly weighted towards your view on the market.

For example, a volatility weighted ratio for the M2K:MNQ will be different from the one above.

A volatility weighted ratio should provide, roughly, a reasonable hedge for the other. We assume perfect correlation of course, which is never the case, but it's a starting point.

Now to add a bias to this trade, you could adjust the ratio to your view.

Calculating Volatility Adjusted Ratios

Micro Futures	Point Value	Margin	ATR	\$ATR
Micro S&P 500	\$5	\$1,200	80	\$400
Micro NASDAQ-100	\$2	\$1,500	249	\$498
Micro Russell 2000	\$5	\$710	59.2	\$296
Micro DJIA	\$0.50	\$1,200	736	\$368

The \$ATR is useful as it shows you, on average, the daily range in these markets in terms of dollar value. We use this number to calculate a spread ratio. For example, the Nasdaq is currently close to \$500 per day. The M2K is currently around \$300.

To calculate a spread ratio, we look for the lowest common denominator, in this case it's \$1500. That makes the spread ratio 3:5 ($3 * MNQ - 3 * M2K$).

Keep in mind, these numbers are constantly changing and need regular recalculation. The numbers here are for illustration and were taken during a volatile time in time market (June 2020). This had inflated both the market and the ATR numbers.

However, they should give you a better hedge or starting point for a trade than relying on the exchange spread margin ratio.

MASTERCLASSTRADER.com

More Contract Info: www.cmegroup.com

Legal Stuff: This is educational material, not trading advice. There is a risk of loss in trading futures or any other speculative instrument. The data in this doco is valid as at June 2020, but is subject to change. See www.masterclasstrader.com for more details.