

# Bond Futures Introduction

All eligible delivery bonds construct the delivery basket where each bond has its own conversion factor. Conversion factors are used to equalise the coupon and accrued interest differences of all the deliverable bonds.

A bond future is a future contract in which the asset for delivery is a government bond. Any government bonds that meet the maturity specification of a future contract are eligible for delivery.

The seller usually picks up the cheapest bond in the basket to deliver, called the cheapest-to-deliver (CTD). The CTD bond is normally delivered on the last delivery day of the month.

Bond futures are exchange-traded with maturities of 2, 5, 10, 30 years, where the typical underlings are treasury notes or bonds. There are established global markets for bond futures. Bond futures provide a liquid alternative for managing interest rate risk.

Investors use bond futures to hedge an existing bond portfolio against adverse interest rate movements or enhance the long-term performance of the portfolio. Arbitrageurs profit from the price difference between the spot bonds and the bond futures.

Speculators use bond futures in the hope of making a profit on short-term movements in prices. This presentation provides an overview of bond future product and valuation.

Reference:

<https://finpricing.com/lib/FiBond.html>