

Attention Banks, Leveraged Longs, and DEC'17 Eurodollar Shorts

While bets on Fed activity are in the market, tax talk on the Hill has created an irregular distortion between EDZ7 and spot 3-month LIBOR. There is, we believe, an opportunity.

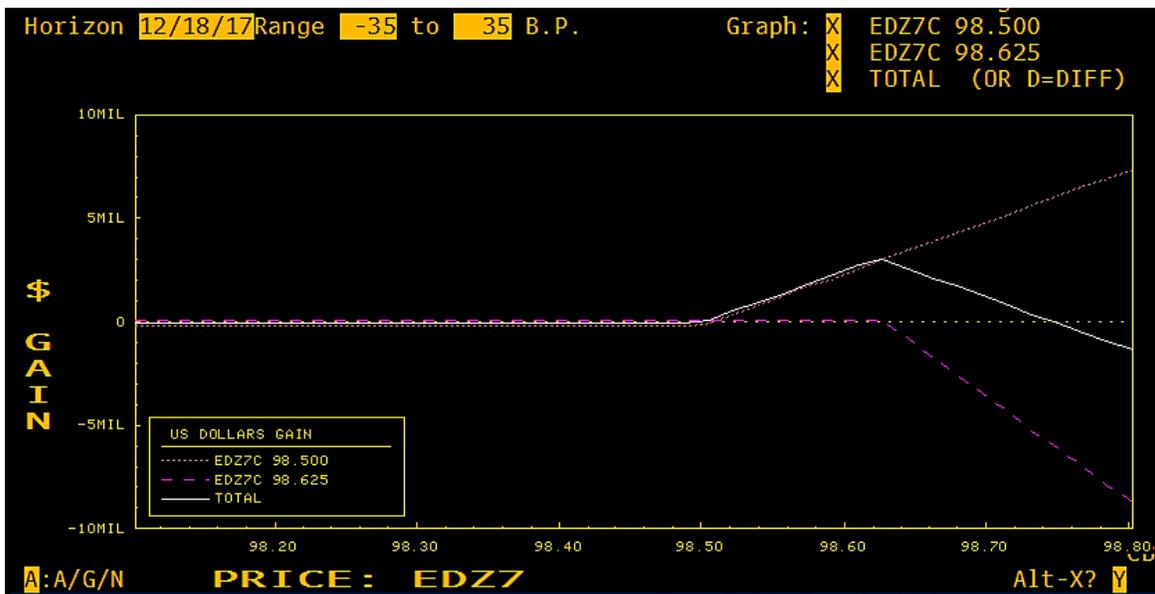
3-month LIBOR settle today 1.445 → Eurodollar equivalent of 98.554
EDZ17 is trading 98.4525 currently

So, in the absence of a move in 3mo LIBOR, EDZ17 will converge from 98.4525 to 98.554 between now and DEC 18, 2017. The >10 basis point discount in EDZ17 represents extraordinary optionality—in our estimation, way, way too much.

There are three transaction alternatives that we prefer. The best being:

Buy 1x EDZ7 98.50 Call
Sell 2x EDZ7 98.625 Call
Pay 0.25bps (\$6.25 per spread)

On a \$62,500 outlay, expiration P&L looks like this:



***This is an 'open-ended' risk option strategy (ie: unlimited loss, akin to an outright futures short position). That said, LIBOR would not just have to move below today's settle. LIBOR would have to decline some 5bps BELOW current Fed Funds levels.

For ANY entity that would benefit from a sharp decline in short rates (especially right before year end), the risk on this trade should be irrelevant. Conversely, those that are already short the front end of the curve via flattener or currently-fixed, over-the-turn financing, this is a transaction that can reduce drag on EDZ7 convergence. If it settled today, pay 0.25 bps to make >5.... 20:1 is payout that gets our attention.

Give the trade desk a call for more info and other alternatives on this irregularity.

DISCLAIMER

This material has been prepared by a sales or trading employee or agent of R.J. O'Brien and is, or is in the nature of, a solicitation. This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions.

DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION.

The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that R.J. O'Brien believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.



RJO FIG CONTACT INFORMATION:

phone: 800-367-3349

email: fig@rjobrien.com

web: www.fixedincomegroup.com