FRA and DV01 neutral Strategies on DAP

Learn about the strategies

DAP strategies are Structured Transactions that combine two DAP Futures Contract maturities with calibrated quantities to neutralize the maturities Unit Price (FRA/ UP Neutral) or the maturities DV01 (Neutral/Slope).

The main goal of this product is to offer an efficient way to trade Yield Curve strategies without execution risk and in a transparent manner.

It should be noted that, as this is a Structured Transaction, the product does not represent a new contract and does not have open positions at EOD since all trades are split into IPCA Spread Futures maturities.

The IPCA Spread Futures Contract (DAP) has the real interest rate as its underlying asset. The real interest rate is calculated by the difference between one-day interbank deposits (DI) and the inflation rate measured by Extended Consumer Price Index (IPCA) as calculated by the Brazilian Institute of Geography and Statistics (IBGE).

Target audience

- Treasuries
- Hedge Funds
- Non-resident investors
- Brokerage houses
- Distributors

What are the advantages?

Execution risk eliminated

Fee structure in line with the strategy's exposure and a 70% discount for day trades between strategies and outrights

Greater transparency to the market

Potential to leverage a greater volume of trades

How it works

When trading a DAP strategy, participants will automatically receive 2 maturities for the IPCA Spread Futures Contract in a ratio that equals the leg UPs (for FRA strategies) or the leg DV01 (for Slope strategies). To define this ratio, at the end of the last trading session of each week a ratio is calculated for each strategy and this ratio will be valid and applied throughout the following week.

Specifications

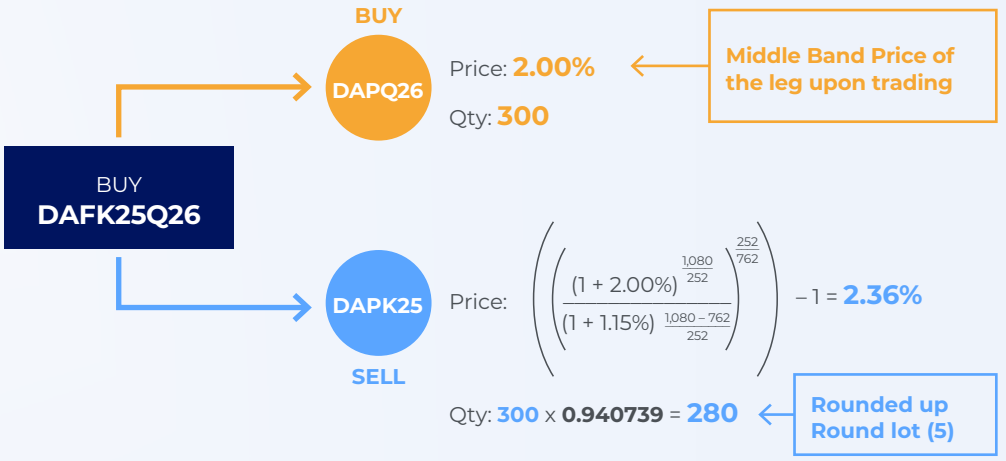
	DAP STRATEGIES	
Characteristics	**DV01 Neutral (Slope)**	**Neutral UP (FRA)**
Ticker	**DAI** + **MAAMAA**	**DAF** + **MAAMAA**
Quotation	Rate differential between maturities	Forward rate between maturities
Tick size	0.01%	
Round lot	5 contracts	
Ratio[1]	$\text{Ratio} = \frac{DV01_{\text{Deferred Month}}}{DV01_{\text{Nearby Month}}}$	$\text{Ratio} = \frac{UP_{\text{Deferred Month}}}{UP_{\text{Nearby Month}}}$
Leg Contract Quantity	$QTY_{\text{Deferred Month}} = QTY_{\text{Traded}}$ $QTY_{\text{Nearby Month}} = QTY_{\text{Deferred Month}} \times \text{Ratio}$	
Leg Prices	$P_{\text{Deferred Month}} = P^{2}_{\text{Deferred Month}}$ $P_{\text{Nearby Month}} = P_{\text{Deferred Month}} - P_{\text{Traded}}$	$P_{\text{Deferred Month}} = P^{2}_{\text{Deferred Month}}$ $P_{\text{Nearby Month}} =$ Composition FRA Rate and $P_{\text{Deferred Month}}$

1 It will be calculated every last trading session of the week and is valid throughout the following week.
2 Middle band price of the leg.

Example 1: FRA Strategy Purchase between DAPK25 and DAPQ26

Trading Date	MAY 3, 2022
Ticker	DAFFK25Q26
Traded Price	1.15%
Traded Quantity	300 Contracts
Ratio	0.940739
BDs to DAPK25 maturity	762
BDs to DAPQ26 maturity	1,080

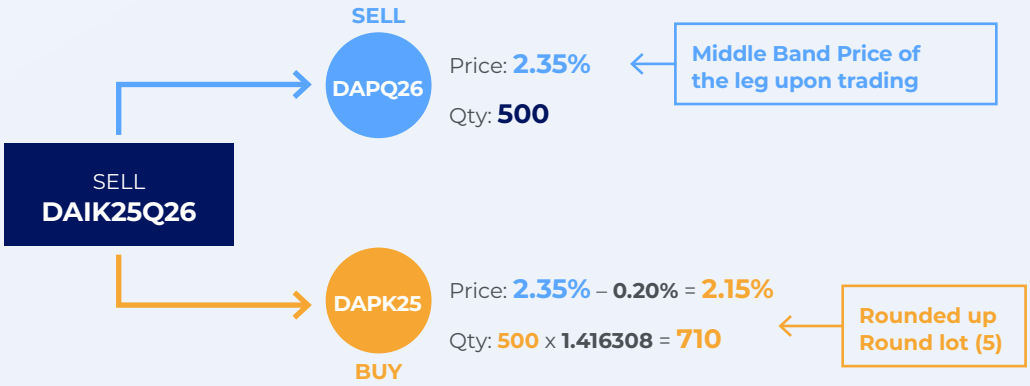
Leg UPs on April 29, 2022
(calculation date of ratio to be applied to the trading week)
DAPQ26: R$80,440.01
DAPK25: R$85,507.24
Ratio: Q26 divided by K25 = 0.940739



Example 2: DV01 Neutral Strategy Sale between DAPK25 and DAPQ26

Trading Date	MAY 3, 2022
Ticker	DAIK25Q26
Traded Price	0.20%
Traded Quantity	500 Contracts
Ratio	1.416308

Leg DV01 on April 29, 2022
(calculation date of ratio to be applied on the trading week)
DAPQ26: R$42.73
DAPK25: R$30.17
Ratio: Q26 divided by K25 = 1.416308



Example 3: FRA Strategy Arbitrage with Outrights

An investor carries out a DAPK25 e DAPQ26 FRA strategy trade at the price of 1.15% (example 1). However, he notices that if he executes an outright sell for this strategy he will make a profit since by realizing the FRA price from the prices being traded in the legs, the FRA rate will be 1.19%.

Trading date	**MAY 3, 2022**
Ticker	DAFFK25Q26
Traded Price	**1.15%**
Traded Quantity	**300 Contracts**
Ratio	0.940739
BDs to DAPK25 maturity	762
BDs to DAPQ26 maturity	1,080

Step 1: Strategy Trading

Step 2: Trading the Strategy Outrights

Maturity	DAPQ26
Transaction	SELL
Price	2.00%
UP	91,863.32
Quantity	300

Maturity	DAPK25
Transaction	BUY
Price	2.34%
UP	93,244.79
Quantity	280

Final Result

DAPQ26

UP Buy (Strategy transaction):
R$91,863.32

PU Sell (Outright transaction):
R$91,863.32

Result:
R$0.00

DAPK25

UP Sell (Strategy transaction):
R$ 93,189.71

UP Buy (Outright transaction):
R$ 93,244.79

Result in points: 55.08

Result in R$: 55.08 x 0.00025 x 6,347.11 (IPCA Pro Rata) = R$87.39 per Contract

To learn more about Structured Transactions, click on the link below or talk to your RM.

I want to learn more