Case 1 Education Materials

In order to get acquainted with interest rates and interest rate derivatives we recommend reading Chapters 4, 6, and 7 in Options, Futures, and Other Derivatives by Hull, eighth edition.

We also recommend reading the following blog post:

https://www.clarusft.com/mechanics-and-definitions-of-spread-and-butterfly-swap-packages/

Both the blog post and Hull readings include information about a very related instrument to interest rate futures: interest rate swaps. We do not recommend ignoring the swap related readings. The difference between a vanilla interest rate swap and an interest rate future is that a swap is payed for at the time of expiry while futures are paid for up front. You can assume for this case that the cost of financing a cash position is negligible (i.e. market participants can borrow/lend money at ~0% rate; remember that this is only true in a theoretical sense; your positions will be liquidated and so you cannot carry a position that would require financing). Thus, the futures can be treated like swaps in this market. Nonetheless, we do not recommend directly using any strategies in the readings, but rather we encourage you to think about how they could be adapted to this market given the data you will be provided.