

STUCK IN THE STARTING GATE: 20Y TREASURY FUTURES UPDATE

May 19, 2022

Topics: [Portfolio Management](#)

Contributors: Stephen J. Douglass



[Subscribe](#) to NISA Perspectives, Primers, News and Quarterly Economic Webinar Updates.

When the CME Group initiated trading on the new 20-year Treasury futures contract in March, we [expressed](#) cautious optimism that the new product would gradually develop liquidity to become another tool for hedging long duration interest rate risk. That optimism has been disappointing so far. It seems the 20-year contract never left the starting gate. After two months of trading through May 16, the contract only had 1,600 contracts of open interest. This is a tiny fraction of the open interest that had developed in the Ultra Bond and Ultra 10-year contracts two months after their respective launches in 2010 and 2016 (see Figure 1). The 20-year contract rarely trades more than 200 contracts a day, even on month-end when other long duration Treasury futures trade hundreds of thousands of contracts. Those are the characteristics of a futures contract on the verge of failure.

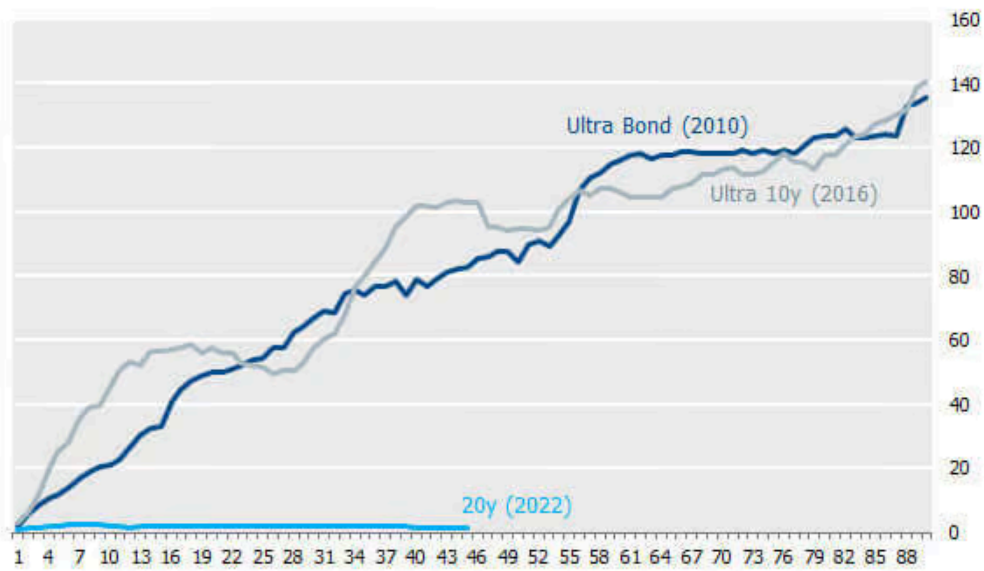
As we noted in our previous post, the 20-year futures contract has suffered in large part because of the liquidity struggles of the underlying 20-year Treasury bond, which continues to trade poorly and recently offered a yield 22 basis points above the 30-year Treasury. The 20y contract is also a victim of unfortunate timing, having launched in the middle of the single worst quarter of performance in the history of the Bloomberg Treasury Index.

In tacit acknowledgement of the languishing liquidity, the CME Group recently [announced](#) a revision to the contract specifications in hopes of spurring more trading activity. Specifically, seasoned, original-issue 30-year Treasury bonds will no longer be excluded from the deliverable basket. This will roughly double the number of bonds eligible for delivery, which CME hopes will increase trading activity. It's not obvious to us

why this amendment would generate much new interest, and it hasn't happened yet. The decision to amend the contract specifications so soon after a carefully-considered launch has a whiff of desperation about it.

Treasury futures will begin rolling from the June to the September contracts in the next couple of weeks. The revised deliverable basket for the 20-year futures takes effect starting with the September contract. As of this writing, there has not been any trading activity in the September 20-year futures contract. We're certainly rooting for activity and another option for liability-hedging, but so far, the 20-year seems to be a non-starter.

FIG 1: Open Interest in First 90 Trading Days
Thousands of Contracts



Source: Bloomberg.

Disclaimer: By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared by NISA Investment Advisors, LLC ("NISA"). This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.