



MONTRÉAL EXCHANGE

International spread between CRA and SR3 (CRA-SR3 spread)

Situation

A trader is looking at the difference in the short-term yield curves between Canada and the United States and expects Canadian rates to decline faster than US rates.

Objective

The trader would like to profit from a trade where both yield curves move in the same direction but at different speeds.

Strategy

To take advantage of a possible widening of the December (CRA - SR3) spread, the trader should buy December CRA futures and sell December 3M SOFR Futures, on a currency adjusted notional basis.

July 22	Month	CRA	SR3	Spread
	September	95.65	94.92	73 basis points
	December	95.91	95.32	59 basis points

Action:

A. Buy 56 December CRA contracts @ 95.91

B. Sell 40 December SR3 contracts @ 95.32

Assume C\$1.40 = US\$1.00

Close the positions:

July 29*	Month	CRA	SR3	Spread
	September	96.05	95.17	88 basis points
	December	96.42	95.57	85 basis points

Action: A. Sell 56 December CRA contracts @ 96.42
B. Buy 40 December SR3 contracts @ 95.57

Results

Note: 1 tick - \$25

Market	Calculations	Profit & Loss
Three-Month CORRA Futures (CRA)	56 x (96.42-95.91) x 100 basis points per contract x \$25 per basis point	C\$71,400
Three-Month SOFR Futures (SR3)	40 x (95.32 - 95.57) x 100 basis points per contract x \$25 per basis point @ 1.4000 (USD/CAD)	(C\$35,000)
Profit on the position		C\$36,400

Comment

Taking a view in the interest rate spread between different countries is a common arbitrage activity. Playing this spread through the futures market makes the trade more transparent, less expensive and much more flexible.

*Hypothetical pricing based on a rate decline.