



## **Micro-DAX® derivatives: an increasingly important part of the investor toolkit**

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The DAX® index tracks the 40 largest German companies. Being the fourth largest economy worldwide, the DAX is a key indicator of the German economy, boasting a diverse range of companies across various industrial sectors. At Eurex, the first DAX® (FDAX) futures were introduced in 1990 with a multiplier of EUR 25 per index point. A second contract on the DAX, the Mini-DAX® Futures (FDXM), was introduced in 2015. Being a total return index, the level of the DAX grows continuously over time to currently more than 15.000 index points. At this level, the notional value of a DAX® futures is about EUR 375,000 (FDAX) and EUR 75,000 for a Mini-DAX® futures, creating entry barriers for many investors to trade the liquid, transparent DAX futures market.

Consequently, Eurex introduced micro futures to its product range in 2021 to meet investor demand for smaller-sized futures contracts. The product launch has been among the most successful globally in recent years, with daily trading volumes in the Micro-DAX futures building to over 30,000 in 2022.

Developing mini and micro versions of established benchmark contracts has been a key global exchange trend over the past five years. The smaller contract sizes appeal to investors with smaller investment budgets, such as retail traders, and enable larger institutional investors to fine-tune investing and hedging strategies and gain cost-effective access to benchmark indexes.

"Eurex traditionally has been an exchange for institutional investors, and smaller-sized contracts were not available on the market," says Eugen Mohr, SVP, Equity and Index Sales, EMEA at Deutsche Bourse. "In response to a growing demand for smaller sizes, Eurex launched smaller notional contracts, starting with the Mini and followed by the Micro."

Following the successful launch of the mini and micro futures, Eurex launched mini and micro-options. Developing liquidity in the smaller contract sizes has required a big educational push from Eurex to promote the products to a new investor base of retail investors.

"Previously, smaller, private investors were not active in the derivatives markets," says Mohr. "Trading futures and options were more for specialized investors. This changed over time, particularly during the pandemic, which saw many private investors enter the market."



Eurex launched an initiative in coordination with brokers across the globe to develop educational programs for smaller private investors.

"The goal of this initiative is to educate the investors and give them some guidance on how to use the product and to teach them about the potential risks," says Mohr.

This global reach and influx of new traders resulted in a liquid order book across different time zones, providing investors a cost-efficient way to access European exposure. As a regulated exchange, Eurex allows traders to take positions via an anonymous order book, minimizing counterparty risk with central clearing, a key advantage over many existing retail markets.

Trading flow from retail and private traders on Eurex is expected to grow further in 2023 as global macroeconomic trends are reflected in the German economy.

Daniel Mannion, Senior Equity Derivatives Sales Trader at independent market-maker Susquehanna International Group, says that 2023 is likely to be another volatile year for equity derivatives markets.

"Looking ahead to 2023, we believe that inflation and the conflict in Ukraine will continue to be major trends, as well as the re-opening of China and the post-pandemic landscape," he says.

"We also expect to see continued growth in retail trading across Europe, to which we think the Micro-DAX options will be a really interesting product."

Mannion adds that, as the DAX is a national index, it is relevant to investors from across the globe.

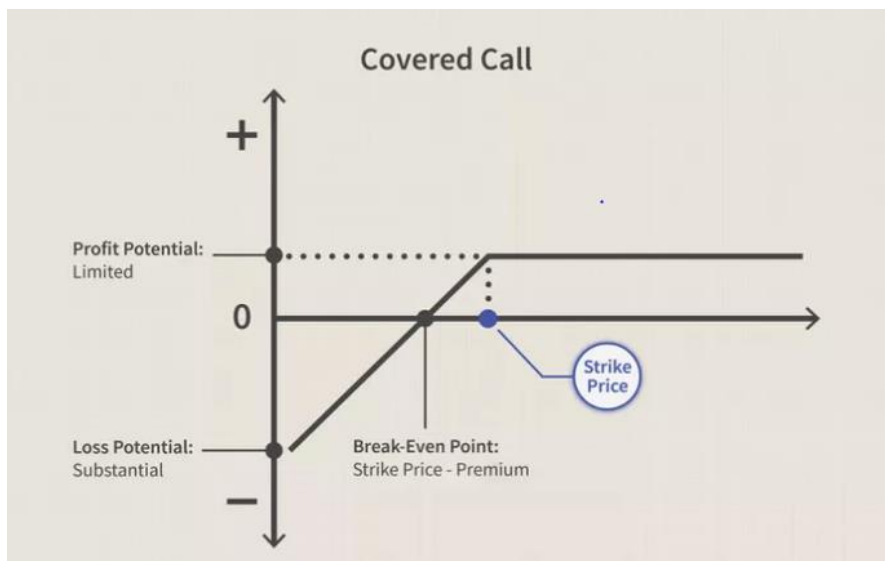
"The German economy is pivotal in the global macro environment right now. They are key in determining the future trajectory of interest rates. Currently, there are many questions around the German economy, such as whether Chancellor Olaf Scholz will prove to be a capable leader and whether Germany will succeed in its energy transition, removing the reliance on Russian Gas. When questions like these are raised, there is market uncertainty, which, in turn, presents an opportunity to global investors with a market view."

Investors can employ several strategies to capitalize on these trends. Risk premia harvesting, call overwriting, put underwriting and dispersion strategies are all deployed by investors to take positions and take advantage of market moves.

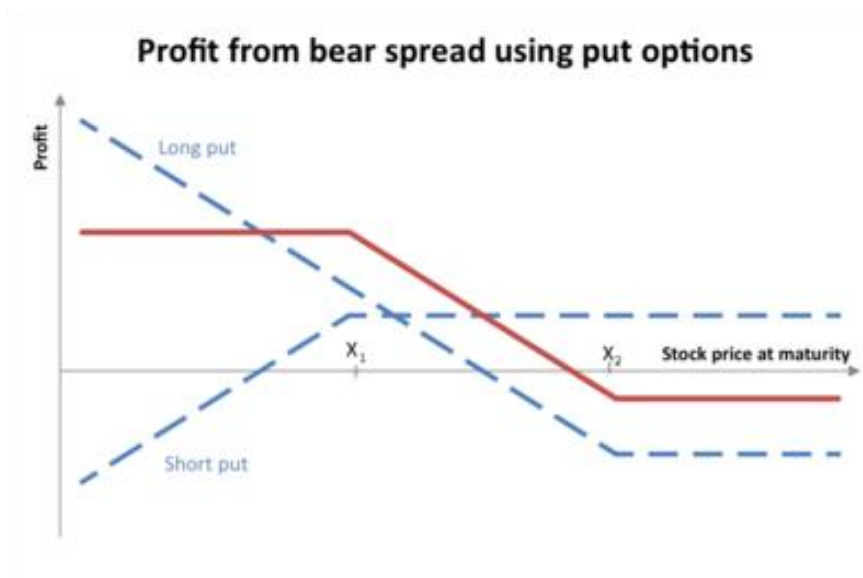
For retail investors, covered call and put spread strategies using options can maximize profits and protect against downside risks, says Mannion.

"Options also allow investors to target and gain leverage or exposure to certain events by being able to tailor the expiry and strike that they trade," he says. "The use of options can provide increased cost-efficiency and at times can be less risky than trading equities or the underlying."

The covered call writing strategy enables investors to gain additional profit during quiet or slightly negative markets by selling calls on the Micro-DAX and earning the premium out of the short sell of the calls.



The put spread is a useful tool for investors that expect the market to go down and want to hedge their exposures in the cash market. The put spread enables investors to buy a long put which protects them against falls in the market but to simultaneously sell a put at a higher price to lock in profits and reduce the purchase price of the long put.





As investors across the globe seek to enhance trading strategies and capture more opportunities, the Micro-DAX<sup>®</sup> futures and options are likely to continue to grow in popularity. Eurex will continue to develop new contracts to meet the increasing demand from the global market.

"Eurex is an innovator in driving the product suite and developing new products in line with demand from investors," says Mohr. "We started with regular contracts and have launched the mini and micro futures. The next step could be short-dated options in a smaller size with monthly, weekly or even daily expiries."