

Binary Options 4-24-08

CME online seminar.

Options on Fed-Fund Futures will be covered ~~also~~.

80K daily. OI up to 600K.

FF FFC FFP BUSC BUSP
 ↓ ↘ ↘
 FF Options Binary

- Options can be thought of as a customized futures contract.
- That's why options are more important than futures to price the fed % change.
You can't bet on the fed with the futures. ~~Only~~ Only options can.

SLIDE 9 98.375 Put is really a 1.625 call

$$100 - 98.375 = 1.625\%$$

SLIDE ~~10~~ ~~option~~ Technique π = "chance of" (OR "IF")

→ a Put in PRICE "space" i.e. 98.375 is a call in Interest rate "space" i.e. 1.625% Vice Verse

The farther away the meeting the better the options work (or the more they tell us).

Slide 16 Problems w/ FF options. Be careful what month you use.

If meeting at end of month, don't use that options month.

⊗ Watch FF effective rate 3/4 days before fed meeting ⊗

SLIDE 17 ⊗ Binary options are the most superior tracking ⊗ ⊗ for Probabilities.

SLIDE 18 Price is a cumulative prob. (Explanation)

" 19 Flip equations. Be loaded them wrong. Same w/ earlier equation that looks like this one.

→ SLIDE 22 There isn't a huge difference between options & Binary ~~options~~ options for PROBS, though.

Wrap Up (Q&A)

~~8-1-02~~ → Fed Govs are looking @ these probs! They are briefed before meetings & intra ~~day~~ meeting. Poole was notorious for talking up 3.5.

• Implied Vol is not a useful concept when it comes to Binary Options.

• Back testing was done. Find paper @ Cleveland Fed.

• Presentation is on CME.com if I need it. It'll be up Monday, but they'll email it to me!

Ref
SLIDES