Pairs CFDs
Product Guide

The Pairs Product

Pairs contracts from 26 Degrees Global Markets (26 Degrees) allows traders to gain exposure to two instruments simultaneously via a single trade, creating a single position where the long exposure in one instrument is equivalent to the short exposure in the other. Pairs contracts can be constructed over Shares, ETFs, Indices, Commodities, Currencies, or any combination of these. This allows the trader to speculate on which instrument in the pairing will outperform the other.

By buying (also referred to as "going long") a Pairs contract, a trader is taking the view that the first instrument in the pair will outperform the second. By going short, they are taking a view that the second instrument will outperform the first.

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Pricing

As Pairs reflect a ratio of two underlying instruments, the price is calculated by taking the first (or base) instrument of the Pair and dividing it by the second (or terms) instrument of the Pair.

The Ask represents the price to buy the base instrument and sell the terms instrument, the inverse is true of the bid price.

Where the quote currency of the instruments within the Pairs contract differs, an FX conversion from base instrument quote currency to terms instrument quote currency is also included in the price calculation.

The resulting price for the Pairs contract is measured in <u>units of terms instrument</u>.

Pairs bid = (Base instrument bid ÷ Terms instrument ask) × FX conversion rate

Pairs ask = (Base instrument ask ÷ Terms instrument bid) × FX conversion rate

Worked Example:

Pairs contract: US 100 vs Japan 225 (NAC/JPC)

- US 100 (NAC/USD) is the Base instrument of the Pair, which has a quote currency of USD
- Japan 225 (JPC/JPY) is the Terms instrument of the Pair, which has a quote currency of JPY

Market Pricing

- NAC/USD: Bid 18,116 / 18,117 Ask
- JPC/JPY: Bid 39,350 / 39,360 Ask
- USD/JPY: Bid 151.730 / 151.734 Ask
- NAC/JPC: Bid 69.836 / 69.859 Ask

  - Bid:
    = (Base instrument bid ÷ Terms instrument ask) × FX conversion rate
    = (18,116 NAC/USD bid ÷ 39,360 JPC/JPY ask) × 151.730 USD/JPY bid
    = 69.836

  - Ask:
    = (Base instrument ask ÷ Terms instrument bid) × FX conversion rate
    = (18,117 NAC/USD bid ÷ 39,350 JPC/JPY ask) × 151.734 USD/JPY ask
    = 69.859

In the above example, the price of the NAC/JPC Pair is 69.836/69.859. This price represents units of the terms instrument, which in this case, is JPC/JPY.

Profit and Loss

When trading Pairs, profit or loss, as with the price, is measured in units of the terms instrument. This means that the profit or loss will be calculated as a number of Shares, ETFs, Indices or Commodities, which is then revalued back into the trading account base currency. This revaluation will occur in real- time within the trading platform and at end-of-day within the statement.

Profit or loss in units multiplied by the terms instrument price gives a profit or loss in the currency of the terms instrument. Where the base currency of the account and the terms instrument currency differ, an FX conversion from terms instrument currency to account currency is also included in the profit or loss calculation.

Profit or Loss in Account ccy = Profit or Loss in Terms Instrument units
× Terms Instrument Price × FX conversion rate

Worked Example:

Pairs contract: US 100 vs Japan 225 (NAC/JPC) Open Position

- Exposure: Long 2 units of NAC/JPC

- Entry Price: 69.745

Market Pricing

- NAC/USD: Bid 18,116 / 18,117 Ask

- JPC/JPY: Bid 39,350 / 39,360 Ask

- USD/JPY: Bid 151.730 / 151.734 Ask

- NAC/JPC: Bid 69.836 / 69.859 Ask

Profit or loss in Terms instrument Units

= (Market Bid Price − Entry Price)×Position Size (Exposure)

= (69.836 − 69.745) × 2

= 0.182 units of JPC/JPY

Profit or loss in Account currency (USD)

= Profit or Loss in Terms instrument units × Terms instrument price × FX conversion rate

= 0.182 units of JPC/JPY × 39,350 JPC/JPY bid × (1 ÷ 151.734 USD/JPY ask)

= $47.20

In the above example, a position of NAC/JPC has generated an unrealised profit of 0.182, which represents 0.182 units of JPC/JPY. 26 Degrees re-values this back to USD using the JPC/JPY and USD/JPY market rates for a real-time profit of $47.20.

Margins

A single margin will be charged for each Pairs contract. The margin requirement will be calculated as a percentage of the notional value of your position using the terms instrument and will be re-valued in real- time to your base currency in the trading platform and at end of day in the statement. The FX conversion rate is from the terms instrument currency to the account currency.

Margin Requirement = Pairs Position Size × Pairs Mid Price × Terms Instrument Mid Price
× FX conversion rate × Pairs Margin Rate

Worked Example:

Pairs contract: US 100 vs Japan 225 (NAC/JPC) Open Position

- Exposure: Long 2 units of NAC/JPC

Market Pricing

- NAC/USD: Bid 18,116 / 18,117 Ask │ Mid 18,116.50
- JPC/JPY: Bid 39,350 / 39,360 Ask │ Mid 39,355
- USD/JPY: Bid 151.730 / 151.734 Ask │ Mid 151.732
- NAC/JPC: Bid 69.836 / 69.859 Ask │ Mid 69.8475

Margin Requirement in Account Base currency (USD)

- Margin Rate: 2%
- Margin Requirement:

    = Pairs Position Size (Exposure) × Pairs Mid Price × Terms Instrument Mid Price × FX conversion rate
      × Pairs Margin Rate

    = 2 units of NAC/JPC × 69.8475 NAC/JPC Mid Price × 39,355 JPC/JPY Mid Price
      × (1/151.732 USD/JPY Mid Price) × 2%

    = $724.66 USD

In the above example, a position of Long 2 units of NAC/JPC margined at 2% has a margin requirement of $724.66.

Commissions

Our Pairs contracts trade commission-free, allowing for a simple and transparent stream of revenue to be created by the broker.

Financing

A single rate of financing will be published and applied to each Pairs contract. This financing rate will consist of a financing benchmark that reflects the differential between the relevant financing benchmarks of the base and terms instruments with a haircut added. This financing rate yields a financing amount in units of terms instrument which is then re-valued to the terms instrument quote currency using the terms instrument price.

The notional value of a Pairs position, calculated using the terms instrument price, will have this derived financing rate applied and automatically re-valued daily.

If the base and terms instrument reference the same financing benchmarks, the resulting financing benchmark for the Pairs contract will net out to zero and only the financing haircut will apply.

The financing benchmark will be weighted in accordance with the number of days for which financing is applicable on the underlying base instrument and terms instrument. This method allows brokers to apply the rate as a simple single day charge, five days per week, because the rate factors in the varying number of swap days.

Pairs Benchmark long = (Base Instrument Benchmark long x Base Instrument Financing Days –
Terms Instrument Benchmark short x Terms Instrument Financing Days)

Pairs Benchmark short = (Base Instrument Benchmark short x Base Instrument Financing Days –
Terms Instrument Benchmark long x Terms Instrument Financing Days)

Pairs Financing Rate = Pairs Benchmark ± Haircut

Worked Example:

Pairs contract: US 100 vs Japan 225 (NAC/JPC) Open Position

- Exposure: Long 2 units of NAC/JPC

End of Day Pricing

- NAC/USD: Bid 18,116 / 18,117 Ask
- JPC/JPY: Bid 39,350 / 39,360 Ask
- USD/JPY: Bid 151.730 / 151.734 Ask
- NAC/JPC: Bid 69.836 / 69.859 Ask

Benchmarks

- NAC/USD: Short 5.32 / 5.32 Long │ Financing Days 1

- JPC/JPY: Short 0.077 / 0.077 Long │ Financing Days 3

- NAC/JPC: Short 5.089 / 5.089 Long

  • Long:

    = (Base Instrument Benchmark Long x Base Instrument Financing Days – Terms Instrument Benchmark Short x Terms Instrument Financing Days)

= (5.32 × 1 - 0.077 × 3)

= 5.089

- Short: As above.

Financing Rate

- Haircut: 3%
- Financing Rate Long:

= Pairs Benchmark + Haircut

= 5.089 + 3

= 8.089%

Financing Charge

= Financing Rate × Financing Days × Position Size × Pairs Price × Terms Instrument price

= 8.089% × (1/365) days × 2 units of NAC/JPY × 69.8475 NAC/JPY mid × 39,355 JPC/JPY mid

= 1218 JPY

In the above example, a position of Long 2 units of NAC/JPC would pay a financing charge of JPY 1218 to hold this exposure for a single day.

Corporate Actions

As our Pairs contracts are hedged into two underlying instruments, we apply corporate actions considering each of these instruments independently. That means that when a corporate action applies to either of the instruments in a Pairs contract, you will see the corporate action reflected on your account in the same way as you would see it applied if you were holding the instruments separately.

Worked Example:

Pairs contract: US 100 vs Japan 225 NAC/JPC) Open Position

- Exposure: Long 2 units of NAC/JPC
- Entry Price: 69.745
- Base instrument exposure: Long 2 units of NAC/USD
- Terms instrument exposure: Short 139.49 units of JPC/JPY

Dividends

- NAC/USD Long Rate: 2.50
- JPC/JPY Short Rate: -0.50

Dividends Bookings

= (Base Instrument Exposure × Base Instrument Dividend Rate) & (Terms Instrument Exposure × Terms Instrument Dividend Rate)

= (2 units of NAC/USD × 2.50) & (139.49 units of JPC/JPY × -0.50)

= 5.00 USD & -69.75 JPY

In the example above, a position of Long 2 units of NAC/JPC would see two dividends booked to the account. A USD 5.00 dividend credit, representing a dividend paid on the corresponding long NAC/USD position, and a JPY 69.75 dividend debit, representing a dividend charged on the corresponding short JPC/JPY position.

26°

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