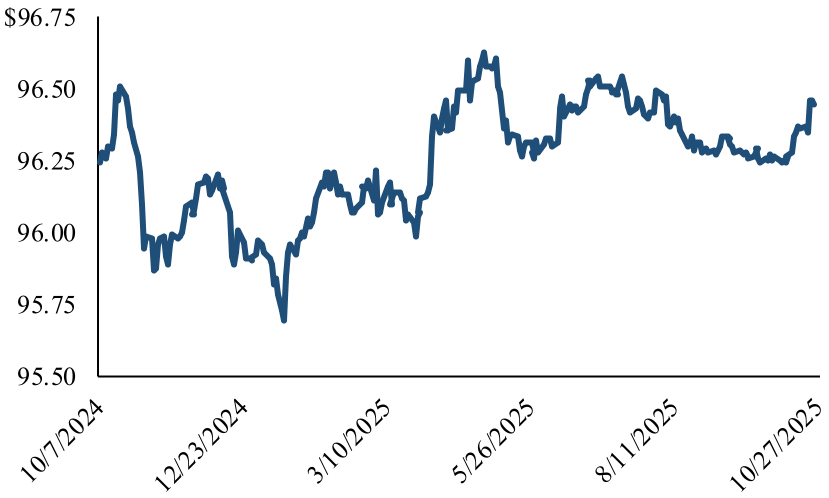
SFIH6 | One-Year Price Chart



Position Details

- 3.00-Month SONIA Futures | SFIH6
- Underlying Price: $96.44
- Bull Call Spread
- Expiration Date: January 16, 2026

Interest Rate Products Sector

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Table of Contents

I. Product & Position Overview

Product & Position Overview

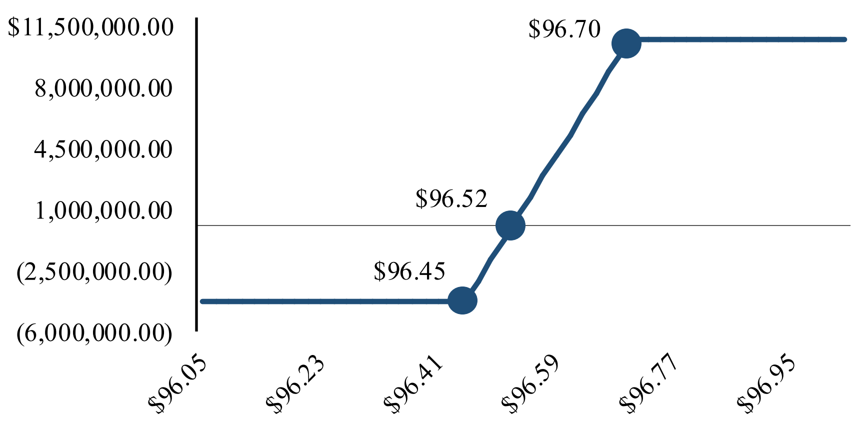
Product Description

- **3.00-Month SONIA Futures**
  - 3.00-Month SONIA Futures are financial contracts based on the Sterling Overnight Index Average Rate, which reflects the benchmark rate that banks lend to each other overnight in the U.K.
  - The price of SONIA Futures represents the market's expectation of the average SONIA rate across the contracts' respective three-month period, subtracted from 100.00
  - The price of SONIA Futures is primarily driven by market expectations of future interest rates set by the BOE, broad economic conditions, and big indicators such as inflation, unemployment, GDP data, and other macroeconomic indicators

Trade Breakdown

- **Bull Call Spread**
  - This trade benefits from bullish price movements in the underlying asset, which corresponds with dovish actions from the BOE
- **Setup**
  - We Buy – 60.00 ATM $96.45 Calls | SFIH6 Comdty
  - We Sell – 60.00 OTM $96.70 Calls | SFIH6 Comdty
  - Max Profit: $10,650,000.00
  - Max Loss: ($4,350,000.00)
- **Expiration**
  - Date: January 16, 2026

Payoff Diagram



Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **$96.70** / **$96.61** / **$96.45**
  - Breakeven – $96.52
- **Methodology**
  - The sector looks to benefit from bullish price movement in the underlying asset as rate expectations shift dovish
- **Hedge Strategy**
  - The sector will look to reverse trade the position if BOE actions and expectations shift further hawkish before the expiration

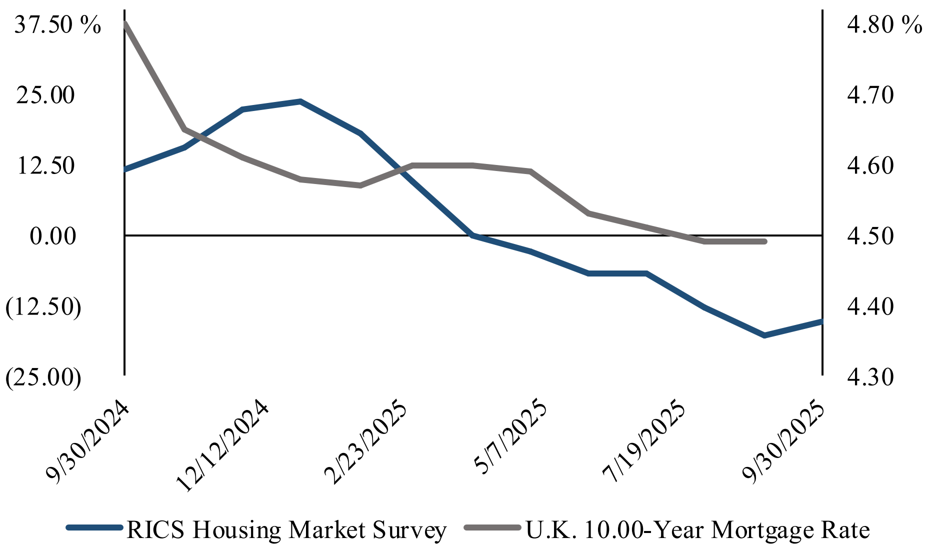
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **Newly Proposed Income Tax Hike to Further Weaken U.K. Economy**
  - Chancellor Reeves plans to hike income taxes in her November 26 budget meeting in an attempt to decrease government debt. The proposed tax hike is estimated to increase the basic rate by 1.00%, which would generate over £8.00 bn in revenue
  - In a previous tax hike in October 2024, which only targeted pensions and capital gains tax, unemployment climbed from 4.30% to 4.80%, where it is now. This tax increase, combined with falling earnings from 5.90% in February to 4.70% in August, will have a much more direct effect on consumer health
- **Inflationary Pressures Misrepresented by High Oil Prices**
  - Inflation came in cooler than expected in September, at 3.80%, despite expectations of a 0.20% increase following the August rate cut. However, CPI showed a decrease in eight of the subsectors, with only three subsectors increasing slightly
  - Transportation saw the largest rise, due to fuel and vehicle repair prices. These inflation pressures are elevated due to higher oil prices, yet we are likely to see bearish price movement in November due to OPEC supply hikes by 137.00 k Bbl/d, contributing to a future decrease in overall inflation
- **Increasing U.K. Recessionary Indicators Leading to Further Easing**
  - U.K. Claimant Count Change surged by 25.80 k in September following three months of declines. Additionally, the joblessness that occurred over the past year has triggered the Sahm rule
  - GDP growth is expected to fall to 0.20%, down from 0.30% in 2Q2025, marking the third consecutive decline YTD. This is also paired with falling Gilt yields and a flattening yield curve

RICS Housing Market Survey vs 10.00-Year Mortgage Rate | One-Year Chart



Market Pros & Cons

- HMRC Payrolls came in negative for the ninth month in the past year
- Private growth fell to 4.80% in August 2025 from 6.30% in December 2024
- U.K. retail sales continue to outperform expectations
- Historically, the BOE focuses primarily on inflation during stagflation

III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
  - The Delta value for this trade is 0.3187
  - For every $1.00 change in the underlying asset, the price of the call spread will change by $0.3187
  - Delta is positive in this trade because a call spread is a net long position, profiting from an increase in the underlying
- **Gamma Analysis**
  - The Gamma value for this trade is 0.00006
  - Gamma is relatively high near the strike of the long call, where the position is most sensitive to price changes, but decreases as the underlying moves deeper into the money or out of the money

Time Risk

- **Theta Analysis**
  - The Theta value for this trade is (0.0011)
  - For every one day in time to expiration, the value of the call spread will lose $0.0011
  - If the underlying were to move towards the upper strike price, the position will begin to benefit from time decay. The extrinsic value curve will begin to approach the intrinsic value, meaning a move towards the higher strike will benefit the Theta value

Implied Volatility Risk

- **Vega Analysis**
  - The Vega value for this trade is 0.0028
  - In the current position, the extrinsic value of the call spread will increase $0.0028 with a 100.00 bps increase in implied volatility
  - Implied volatility benefits this trade, as the long call's positive Vega outweighs the short call's negative Vega. Net Vega is slightly positive across most price levels, meaning higher volatility increases the value of the spread, but the short call's negative Vega slightly reduces the effect on the call spread

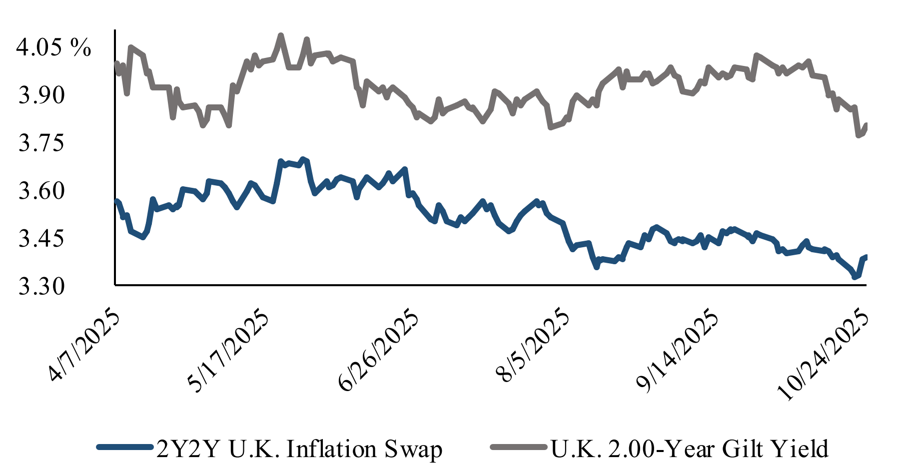
Interest Rate Risk

- **Rho Analysis**
  - The Rho value for this trade is 0.0004
  - For every 100.00 bps increase in the interest rate, the value of the call spread will gain $0.0004 in value
  - The positive Rho results from having a net long position. The long call has a positive Rho, while the short call has a negative Rho, but net Rho is positive in this trade because the long call's rho outweighs the short call's negative Rho

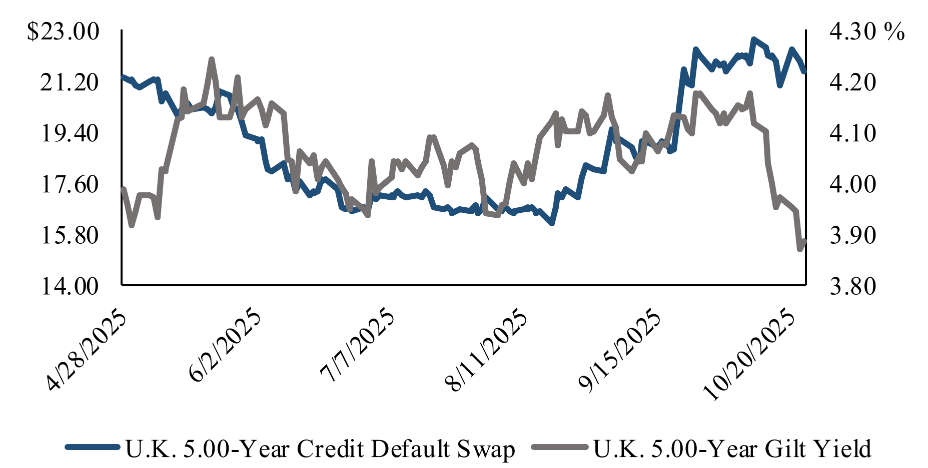
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

2Y2Y U.K. Inflation Swap vs U.K. 2.00-Year Gilt Yield | Six-Month Chart



U.K. 5.00-Year Credit Default Swap vs U.K. 5.00-Year Gilt Yield | Six-Month Chart



Monte Carlo

Output	Long Call	Short Call
Value	$ 0.1830	$ 0.0658

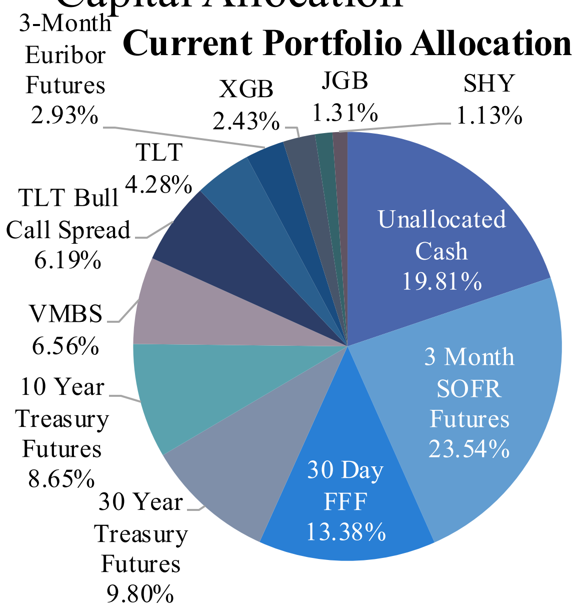
Synopsis

- The top left graph showing both the 2.00-Year U.K. Gilt yield and the 2Y2Y U.K. inflation swap displays how specifically over the past month the 2.00-Year yield is falling faster than the inflation swap. Lower short-term yields signal more expectations for a dovish BOE, despite inflation expectations remaining elevated. This shows that despite inflation, the market is predicting the BOE will begin cutting rates soon in response to economic weakness, tight financial conditions, and recessionary fears
- The graph in the top right with both the U.K. 5.00-Year Credit Default Swap and the U.K. 5.00-Year Gilt yield shows how credit default swaps are rising while the 5.00-Year Gilt yield is falling. This shows that investors are concerned about credit risk, and are seeking safety in government securities, signaling a decrease in consumer sentiment due to weakness in the economy

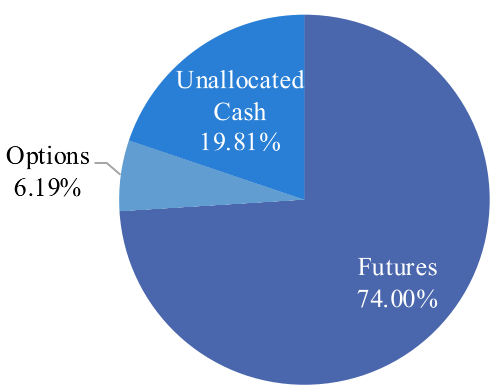
V. Capital Allocation

Capital Allocation

Current Portfolio Allocation

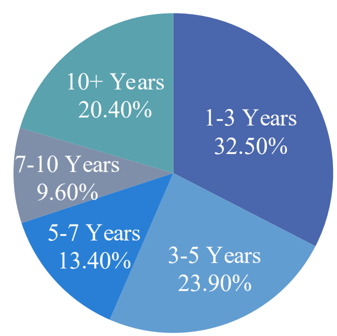


Current Position Allocation

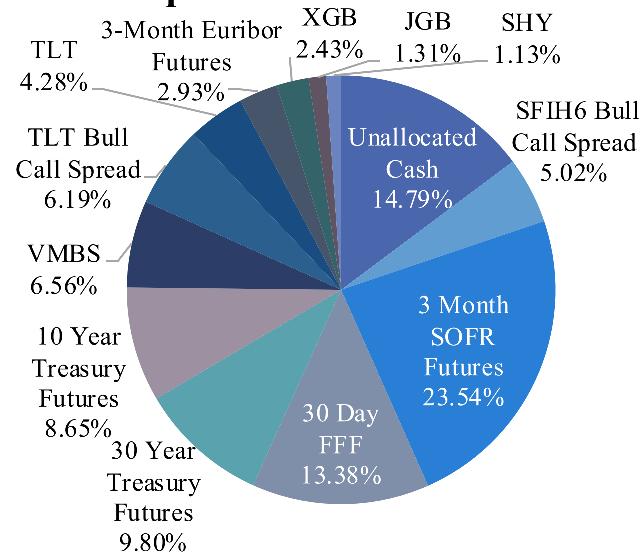


Transaction Summary		
	Position Change	
Ticker	Contracts	Allocation
3 Month SOFR Futures	0	$0.00
30 Day FFF	0	$0.00
30 Year Treasury Futures	0	$0.00
10 Year Treasury Futures	0	$0.00
VMBS	0	$0.00
TLT Bull Call Spread	0	$0.00
TLT	0	$0.00
3-Month Euribor Futures	0	$0.00
XGB	0	$0.00
JGB	0	$0.00
SHY	0	$0.00
SFIH6 Bull Call Spread	+60	$4,350,000.00
Allocation Change		$4,350,000.00

Benchmark Allocation



Proposed Portfolio Allocation



Proposed Position Allocation