



Guide to Calendar Spreads



WHAT ARE CALENDAR SPREADS?

A calendar spread is a trading strategy that combines buying a futures contract for a delivery month and simultaneously selling a different contract month in the same underlying index (e.g. S&P/NZX 20). The goal is to profit from changes in the price differential between the two contract months.

- **Buy Calendar Spread:** Buy near-month, sell far-month
- **Sell Calendar Spread:** Sell near-month, buy far-month

This strategy is commonly used for rolling positions, curve trading, and managing exposure across time.

WHY USE CALENDAR SPREADS?

Rolling Positions

Calendar spreads allow traders to maintain market exposure beyond the expiry of a futures contract. This is achieved by rolling the position forward, which involves simultaneously selling the expiring contract and buying a later-dated contract in one transaction.

EXAMPLE:

A portfolio manager is long 10 lots of March S&P/NZX 20 Index Futures, and they want to roll their position over from March to June.

To maintain their exposure beyond the March expiry, they sell 10 lots of the March contract and buy 10 lots of the June contract simultaneously.

Curve Trading

Calendar spreads are often used by speculative traders to express a view on the futures curve. If an investor expects a flat curve to steepen (longer-dated contracts will rise more than near-dated contracts), they may sell the near-dated contract and buy the longer-dated contract to profit from the widening spread.

EXAMPLE:

It is March, and the S&P/NZX 20 Index Futures curve is trading at \$7,500 in June and \$7,350 in December. Trader A expects the curve to steepen as long-term sentiment improves. Trader A simultaneously sells June S&P/NZX 20 Index Futures at \$7,500 and buys December S&P/NZX 20 Index Futures at \$7,350, for a \$150 spread price.

By April, the market moves in Trader A's favour: June futures rise to \$7,550, while December futures jump to \$7,800. Trader A closes the position by simultaneously buying a June contract at \$7,550 and selling a December contract at \$7,800, resulting in a -\$250 spread.

The net gain on the trade is \$400 (-\$50 loss on June contract and \$450 gain on December contract.)

BENEFITS

No 'Legging' Risk

Calendar Spreads can be executed in a single transaction, which eliminates the risk of being left with an outright position in one 'leg' (contract).

Execution Efficiency

Calendar spreads are executed in a single transaction, allowing a trader to make two trades by crossing only one bid/ask spread.

Margin Offsetting

Calendar spreads often require lower margin requirements than outright positions, as the long and short positions offset each other, allowing traders to use their capital more efficiently.

Improved Orderbook Depth

Calendar spreads can enhance order book depth, as implied orders between the spread market and outright market create increased order flow, ultimately improving market liquidity.

TRADING

Pricing of the spread

When buying or selling a calendar spread, the trade direction refers to the near month contract, while the far month contract is traded in the opposite direction.

If the near month price is lower than the far month, the spread price is negative, i.e. Buy March at \$7,500 and sell June at \$7,600 → Spread = \$7,500 - \$7,600 = -\$100.

If the near month price is higher than the far month, the spread price is positive. i.e. Buy March at \$7,500 and sell June at \$7,400 → Spread = \$7,500 - \$7,400 = \$100.

Calendar spread orders are entered as price differentials between the two contract months. These orders sit on a separate strategy order board (for S&P/NZX 20 Index Futures, this is under the I-STGY board), but when executed, they result in two underlying futures trades in the respective months.

TRADING EXAMPLES

SPREAD VS SPREAD ORDER MATCHING

Suppose a trader submits a buy order on a March S&P/NZX 20 Index Future vs June S&P/NZX 20 Index future (i.e., buy March and sell June contracts) at a -\$100 difference. A buy order is entered on the Mar-Jun S&P/NZX 20 spread (KIWFH26M26) at a price of -\$100. If another trader (Trader B) submits a sell order on the same spread (sell March and buy June) at -\$100, their orders will match on the calendar spreads order book.

Once the spread orders match at -\$100, the individual leg prices are calculated as follows:

- The near leg (March) uses the prior day's Daily Settlement Price (DSP).
- The far leg (June) is calculated by applying the strategy price to the near leg price.

EXAMPLE:

If the DSP for March is \$7,500, then:

March leg = \$7,500

June leg = \$7,600 (because $\$7,500 - (-\$100) = \$7,600$)

These leg prices are not price setting and therefore do not contribute to daily settlement price calculations, as detailed in the contract specifications.

SPREAD VS TWO OUTRIGHTS

Spread orders can also match against two outright orders in the individual contract months, provided their price differential equals the spread price.

Suppose Trader A submits a buy order on the Mar-Jun S&P/NZX 20 spread at -\$100. Trader B has a sell order in the March contract at \$7,500. Trader C has a buy order in the June contract at \$7,600.

These orders will match together, resulting in Trader A buying March at \$7,500 from Trader B and selling June at \$7,600 to Trader C, completing the -\$100 spread order.

These prices will be deemed price setting and will be considered for calculation in the daily settlement price as one side of the trade for each of the individual contract months is an outright market order.

IMPLIED ORDERS

One of the key benefits that calendar spread trading functionality provides is an increased order book depth due to the trading system calculating 'implied' orders between the spread market and the individual contract months.

Order implication is a process run by the trading system that identifies orders as available in a given market based on orders available in a related market. For example, a buy order in March S&P/NZX 20 Index Futures and a sell order in June S&P/NZX 20 Index Futures contracts, will imply a Mar-Jun order into the calendar spread market for the difference.

There will be three types of implied order functions available in the NZX equity derivatives market:

1. Implied into the spread

When two orders in individual contract months imply an order into the spread market.

EXAMPLE:

Buy March S&P/NZX 20 Index Futures order at \$7,500 + Sell June S&P/NZX 20 Index Futures order at \$7,600 = Implied Mar-Jun spread order at -\$100.



Bid



Ask

March (H)			
10	\$7,500		
June (M)			
		\$7,600	5
H-M (March-June)			
5i	-\$100		

2. Implied out of the spread

When a spread order plus one individual contract month order, imply an order into the remaining contract month.

EXAMPLE:

Sell March S&P/NZX 20 Index Futures order at \$7,500 + Mar-Jun spread order at -\$100 = Implied June S&P/NZX 20 sell order at \$7,600.



Bid



Ask

March (H)			
		\$7,500	10
H-M (March-June)			
10	-\$100		
June (M)			
		\$7,600	10i

3. Implieds from two spreads with a common leg

Where two spreads have one common leg, an implied order is generated.

EXAMPLE:

Buy Mar-Jun S&P/NZX 20 spread order at \$50 + Buy Jun-Sep S&P/NZX 20 spread order at \$50 = Implied buy Mar-Sep S&P/NZX 20 spread order at \$100.



Bid



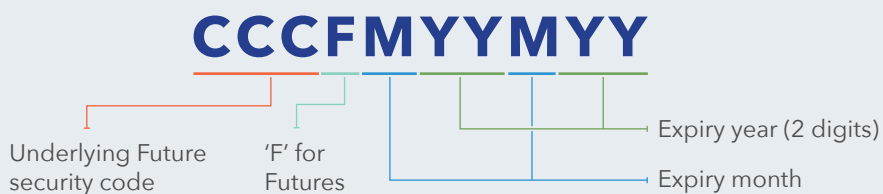
Ask

H-M (March-June)			
10	\$50		
M-U (June - Sep)			
10	\$50		
H-U (March - Sep)			
10i	\$100		

(i = implied order). Note: implied orders can only be generated at the best bid/offer and there can be multiple implied orders at that price.

SPECIFICATIONS

Symbology



For example
KIWFU26Z26

KIW = S&P/NZX 20 Index Futures
F = Future
U = September
26 = 2026
Z = December
26 = 2026

TRADE PROCESSING/SETTLEMENT

Although accepted as a single order, all calendar spread trades are processed as two separate trades on the underlying individual contracts, including where a calendar spread order matches with another calendar spread order.

DAILY SETTLEMENT PRICE METHODOLOGY

Price setting trades

Calendar spread orders matching with outright order(s) will be deemed price setting trades while trades resulting from two matching spread orders will not.

When trading a spread order directly against another spread order, outright (leg) prices are calculated as follows:

The price of the first leg is calculated based on the previous business day's Daily Settlement Price (DSP) for that instrument. The last leg price is calculated by applying the strategy price against the first leg.

EXAMPLE:

Buy AB + sell AB, price 10. The DSP for A on the previous day is 100.

Leg A trade price = 100, Leg B trade price = 90 (100-10)

These prices will be tagged as non price-setting trades and therefore not be considered in the day's DSP calculation.

Price setting orders

All orders including implied orders from calendar spreads into the individual contracts will be used for calculating DSP where there are no trades, or no trades deemed referenceable.

IMPLIED ORDERS

Implied orders can only be generated at the best bid/offer and there can be multiple implied orders at that price.

Implied orders only appear during normal market trading.

IMPLIED ORDER AGGREGATION AT THE SAME PRICE

In the event one order is entered which creates multiple implieds at the same price, the implied orders will appear

aggregated together, however this does not affect the priority in which they will be matched.

If multiple orders are entered creating implied orders at the same price, they will show as individual orders.

SPREAD ORDER/TRADE NOTIFIERS

Implied orders are marked with an 'I' in the Indicator column in the Depth Window.

Non-price setting trades are identified as such in data feeds.

OFF-MARKET TRADE FACILITIES

Calendar spreads cannot be traded in off-market trade facilities (Block Trades, EFP and EFS).

REFERENCE PRICES

The DSP sets the reference price for the underlying futures. The difference between the relevant two underlying futures sets the reference price for calendar spreads.

TRADE EVENTS/PERMISSIONS

Calendar spreads have the same trading hours as the underlying Futures. However, it should be noted:

- When the futures market enters Pre-open, the status of calendar spreads remains in Enquiry, but permissions change to allow the withdrawal and deactivation of strategy orders. New orders or order amendments can only be made after market open.
- When the futures market closes or calendar spreads are Halted, the permissions allowed are Withdraw and Deactivate only.

SIDE EFFECT TRADING

Side effect trading is a phenomenon occurring in implied spread markets that can only take place when a product transitions to a trading state, also called opening. Side effect trading begins during the pre-open when outright orders create an implied quote that would match with a resting spread order. Upon opening, the price of this implied quote can exceed the resting spread's limit price, resulting in a price improvement. This price improvement, which must be allocated somewhere, and is assigned to one of the outright future orders.

S&P/NZX 20 INDEX FUTURES – Individual Contract Specification

Underlying	S&P/NZX 20 Index
Underlying Index Return Type	Price Return
Unit of Trading	Contract valued at NZ\$1 per index point (e.g. value NZ\$7,500 at 7,500 index points)
Price Basis	Index points
Minimum Price Movement (Tick Size and Value)	One Index Point (NZ\$1)
Daily Price Limits by Contract Month	None
Contract Months	March / June / September / December up to six calendar quarters ahead
Trading Hours	As determined from time to time by NZX by notice to the Market in accordance with the NZX Derivatives Market Rules and Procedures.
Last Trading Day	Trading will cease at 17:15 hrs NZST/NZDST on the third Thursday of the Contract Month, or if that day is not a Trading Day, as set out in the expiry calendar
Final Settlement	Trades will be cash settled to the S&P/NZX 20 Index value calculated by S&P using the close prices on the Last Trading Day in accordance with the S&P/NZX New Zealand Indices Methodology
Clearing House	New Zealand Clearing Limited
Common Trading Facilities	Block Trading Facility ✓
	Exchange for Physicals Facility ✓
	Exchange for Swaps Facility ✗
Common Trading Facilities Minimum Volume Thresholds	Minimum Volume Thresholds for each Contract or class of Contracts are specified in Part C, Appendix One of the Procedures
Exchange Code	KIW
Cross Transactions Minimum Time Period	15 seconds
Position Limits	As prescribed by NZX from time to time
Exchange Rules	The Contracts are Traded on the NZX Derivatives Market and subject to the NZX Derivatives Market Rules and Procedures

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*S&P/NZX New Zealand Indices Methodology <methodology-sp-nzx-index.pdf>

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