Effect from Foreign Trading Volume and Institutional Trading Volume in SET on SET50 Index Futures

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Abstract

GARCH models have been extensively selected to examine the forecasting volatility models and the significant positive relationship is found between trading volume and return volatility. Motivated by a significantly increasing of trading volume in The Stock Exchange of Thailand (SET) during 2009 to 2010, the purpose of this study is to investigate the relationship between fund flow in SET and return volatility in Thailand Future Exchange market during 2007 to 2010 separated into 2 groups, in-sample data contains observations during 2007-2009 and out-sample data contains observation in 2010, using, with applying index methodology introduced by Chicago Board Options Exchange, Incorporated (CBOE), Autoregressive model, and various GARCH frameworks. The empirical results from this study show that there is a significant negative relationship between cross-market foreign fund flow and futures return volatility while futures trading volume has a significant positive relationship with futures return volatility. In contrast, exchange rate return volatility and cross-market institutional net volume are insignificant and would not help to improve the return volatility forecasting. The empirical results also support Mixture Distribution Hypothesis (MDH) and GARCH-M is found as the most appropriate framework followed by EGARCH.

Keywords: Volatility Return, Cross-Market Relationship, Fund Flow Effect