

Spread Trading on SET50 Index Futures: Evidence in Thailand

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ABSTRACT

According to the pairs trading, if we can find two similar products which have the cointegrating relationship, at least one product would have mean-reverting property. With this specific property, the trading rule can be applied to receive a profit. From our findings, the long-run relationship between the nearest-term and the next nearest-term contracts exists in each market trend after 2 years of operating futures market. The error correction model show no lead-lagged relationship between these contracts series, however, the nearest-term, the next nearest-term contracts or both of them adjust toward their equilibrium level, a mean level. Nonetheless, the pairs trading strategy assisting to make a profit is inconclusive. The cointegrating relationship is applied for the out-sample test, resulting in the positive average profit and total profit during the sideways period. Unfortunately, the results turn out to be worse with all loss during the uptrend period, probably, caused by the low volatility and slow adjustment to reach the equilibrium.