

Expiration Day Effect from Stock Index Futures on Its Underlying: Using Empirical Evidence from The SET 50 Thailand

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ABSTRACT

This paper studies the possibility of any impact that introduction of Stock Index Futures may have on the underlying stocks on the expiration day by using the data from SET50 Index in Thailand. The tests was based on two main methodology, one being the sample t-test (bi-variate) by comparing the characteristics of the movement of the underlying index to two comparable groups (one being the same day of one week prior to expiration, and the other being the same date one month earlier) which has shortcoming in terms of bias in comparable group selection, therefore the test was also conducted using pooled-panel regression. The time period of the study starts in October 2007 until September 2011, consisting of 16 expiration groups.

Using the explained method above, one were able to find only abnormal movement in the mean return over the last 10 minutes of the trading, and no significant change in characteristics for turnover volume, standard deviation of the mean returns, daily price variation or mean reversal. This help comfort investors to a certain level that there is no evidence of manipulation or possibility of profit seeking activities during the expiration date and supports the regulator into setting the last 15 minutes of trading activity as the expiration period.

Keywords: Derivatives impact on underlying; Expiration date; SET50 Futures