Futures Trading Guide

Gold Futures

Content

Bualuang Securities Public Company Limited produced this document in order to provide investors with additional knowledge about and understanding of Gold Futures. The information may be useful for the customers opening a futures trading account, but should not be construed as an investment recommendation.

Investment involves risk. Investors should make investment decisions with care.

1 Introduction to Gold Futures

A Gold Futures contract consists of two important components—a futures contract and the gold bullion. The combination of these two components creates a futures contract with the gold bullion as the underlying asset.

2 Characteristics and Specifications of Gold Futures

TFEX has defined the characteristics and specifications for SET50 Index Futures, as follow:

Heading	Individual Contract Specification
Underlying Asset	Bullion Gold with a purity of 96.5%
Contract Size	50 Thai Gold Baht (762.20 grams) (1Thai Gold Baht = 15.224 grams)
Contract Months	3 nearest even months: February, April, June, August, December
Tick size	Bt10
Ceiling/Floor	+ / - 20% of previous settlement price
Trading Hours	Pre-open: 9:15 - 9:45 hrs Morning session: 9:45 - 2:30 hrs Pre-open: 14:00 - 14:30 hrs Afternoon session: 14:30 - 16:55 hrs
Last Trading Day	The day prior to the last exchange business day of the contract month. Time at which trading ceases on the Last Trading Day is 16.30 hrs

Final Settlement Price	To be calculated from the London Gold A.M. Fix Price announced by London Gold Market Fixing Ltd. The calculation is based on the following formula: (London Gold AM Fix) x (15.244/31.1035) x (0.965/0.995) x (THB/USD)
Settlement	Cash Settlement

2.1 Underlying Asset

The underlying asset of a Gold Futures contract is gold bullion with a purity of 96.5%—the most traded standard bullion gold in Thailand.

2.2 Contract Size

The contract size for a Gold Futures contract is equal to 50 Thai Gold Baht (762.2 grams). That means if the price of Gold Futures equals Bt13,000, the value of the Gold Futures contract will be 13,000 x 50 = Bt650,000

2.3 Contract Months

The TFEX has set the contract months (delivery months) of Gold Futures to 6 even months in the calendar year; February, April, June, August, October and December. The contract months allowed to trade the Gold Futures will always be the three nearest even months. For example, if today is February 2, 2009, the outstanding futures contracts being traded will be for the following contract months only:

1 February 2009
2 April 2009
3 June 2009

However, on the last trading day of the nearest contract, a new further contract will be opened for trading. Assuming that today is the last trading day for the contracts expiring in Feb 2009, a new contract expiring in Aug 2009 will automatically be opened for trading.

2.4 Tick size

The tick size for a Gold Futures contract equals Bt10. That means that the price difference between each order cannot be less than Bt10.

- Examples of valid price ranges are Bt13,000, Bt13,010 and Bt13,020 etc.
- Examples of invalid price ranges are Bt13,005, Bt13,014 and Bt13,029 etc.

2.5 Ceiling/Floor

The TFEX has set the daily ceiling and floor for Gold Futures to ± 10% of the previous day's settlement price. However, this ceiling and floor will be changed to ± 20% of the previous day's settlement price if the price of the nearest month Gold Futures reaches ± 10%. Hence if the previous day's settlement price of the Gold Futures equals Bt14,000, the price that the contract can be traded can not be higher than Bt16,800 (+20%) and can not be lower than Bt11,200 (-20%).

2.6 Trading hours

The trading day is divided into four sessions

Session	Details	Periods
1	Pre-open	9:15 – 9:45
2	Morning session	9:45 – 12:30
3	Pre-open	14:00 – 14:30
4	Afternoon session	14:30 – 16:55

2.7 Last Trading Day

The last trading day of each contract is the day prior to the last exchange business day in the contract month. Examples are as follow:

Expirations	Last trading days
February 2009	26 February 2009
April 2009	29 April 2009
June 2009	29 June 2009
August 2009	28 August 2009
October 2009	29 October 2009
December 2009	29 December 2009

Note also that on every last trading day the contract can be traded only until 16.30 hrs.

2.8 Final Settlement Price

The price will be based on the London Gold AM Fix Price, adjusted for the weight, purity and currency as per following details:

- Weight: From troy ounce to Thai Gold Baht
- Purity: From 99.5% to 96.5%
- Currency: From USD to Bt

The calculation will be made using the below formula

$$\text{Final Settlement Price} = \text{London Gold AM Fixing} \times \left(\frac{15.244}{31.1035}\right) \times \left(\frac{0.965}{0.995}\right) \times \left(\frac{\text{THB}}{\text{USD}}\right)$$

2.9 Cash Settlement

For the sake of convenience, there is no physical delivery of a futures contract for gold bullion. Only cash settlement is made. Gains and losses from the contract's position will result in cash transfers to the customer's account. When a contract is settled in cash, its position is declared closed.

3 Contract Code

3.1 Single Order

The contract code for a single order of a Gold Futures contract comprises three parts, as shown below:

Part 1	Part 2	Part 3
GF	Z	09

Part 1: Underlying Asset
The gold bullion is the underlying asset for a Gold Futures contract—GF is used as its symbol.

Part 2: Contract Month
The symbol of each expiry month is represented by a letter, see below.

Contract Months	Symbol	Contract Months	Symbol
February	G	August	Q
April	J	October	V
June	M	December	Z

Part 3: Expiry Year
The last two digits of the expiry year are used—for example, 08 for contract expiry year 2008 and 09 for a contract due to expire in 2009.

The contract codes for Gold Futures for all contract months can be found in Attachment 1.

3.2 Combination Order

The contract code of a combination order for Gold Futures comprises five parts, as follow:

Part 1	Part 2	Part 3	Part 4	Part 5
GF	V	09	Z	09

Part 1: Underlying Asset
As the gold bullion is the only underlying asset of a Gold Futures contract, GF is used as its symbol.

Part 2 and part 4: Expiry Months
Each expiry month is represented by a letter, see below.

Contract Months	Symbol	Contract Months	Symbol
February	G	August	Q
April	J	October	V
June	M	December	Z

Part 3 and part 5: Expiry Year
The last two digits of the respective expiry years are used—for example, 08 for contract expiry year 2008 and 09 for a contract due to expire in 2009.

Examples of trading using a Combination Order

1. An investor sends an order to buy GFV09Z09 at price Bt50, which means the investor wants to buy GFZ09 and sell GFV09 simultaneously. The price of GFZ09 minus that of GFV09 must not exceed Bt50.
2. An investor sends an order to sell GFM09Q09 priced at Bt20, which means the investor wants to sell GFQ09 and buy GFM09 simultaneously. The price of GFQ09 minus that of GFM09 must not be lower than Bt20.

The contract codes of Gold Futures for all contract months can be found in Attachment 1.

4 Circuit Breaker

The TFEX has set the daily Ceiling and Floor for Gold Futures to ± 10% of the previous day's settlement price. As soon as the price of the nearest month Gold Futures touches ± 10% of the previous day's settlement price, a Circuit Breaker will be announced. If the trading hours continue after the Circuit Breaker is over, the Ceiling and Floor will be extended to ± 20% of the previous day's settlement price.

For a Combination order, the Ceiling and Floor are set using the previous day's settlement price of the far month minus that of the near month ± Bt200. The Ceiling is equal to the spread of the previous day's settlement price of the far–near month +Bt200, while the Floor is equal that spread –Bt200.

5 Commission fee

The commission for Gold Futures is set as a Sliding Scale respective to the daily contract number, VAT exclusive. For offline and Internet trading, the commission fees are as follow:

Contracts	Commission fee(Bt/contract)		
	2FEB-30APR'09	1MAY-31JUL'09	1AUG ONWARDS
1th – 5th	475	487.5	500
6th – 20th	375	387.5	400
From the contract 21st onwards	275	287.5	300

Examples

- An investor buys one contract of GFZ09 a day. The commission fee (VAT exclusive) equals Bt500.
- An investor buys 10 contracts of GFZ09 a day. The commission fee (VAT exclusive) equals 500 x 5 + 400 x 5 = Bt4,500 (Bt450 per contract)
- An investor sells 25 contracts of GFZ09. The commission fee (VAT exclusive) equals 500 x 5 + 400 x 15 + 300 x 5= Bt10,000 (Bt400 per contract)

6 Contract Holding till Expiration

A Gold Futures Contract, that is held till expiration, will be marked-to-market at the end of the last trading day of that contract month. The investor will receive/pay the difference between the final cost and the final settlement price, while his/her position will be automatically closed.

7 Reportable Limit

As specified by the SEC and TFEX, all brokers must report name lists of clients that hold at least 1,000 contracts or equivalent in Gold Futures .The contracts will be computed from one single contract month and net of all contract months combined.

8 Trading Strategies

8.1 Directional Trading Strategy

A Gold Futures contract is an instrument that can help investors to speculate in both uptrend and downtrend gold markets. This is due to the fact that the Gold Futures contract does not need a physical transfer between contractors, but only a cash settlement—the process of receiving or paying the difference between the contract price and the final settlement price. As a result, investors can make the following transactions with convenience and efficiency:

1. "Buy and sell " in order to speculate on a market uptrend.
2. "Short sell and buy back" in order to speculate on a market downtrend.

8.2 Spread Trading Strategies

Besides the directional trading, investors can also apply spread trading strategies that involve trading two futures contracts simultaneously. Three common spread trading strategies are as follow:

8.2.1 Calendar Spread

Strategy Components

The calendar spread or, in other words, inter-month spread is a strategy that consists of

1. Long position in one futures contract
2. Short position in one futures contract (the same underlying asset, but a different contract month).

For Example

- Long GFV09 and short GFZ09 (Buy near, sell far)
- Short GFM09 and long GFQ09 (Buy far, sell near)

Objectives and Strategies

1. An investor is holding contracts with low liquidity and needs to close his positions.

   Example On February 1, 2009 Mr A has a long position in GFM09, but the gold price has dropped dramatically by that time, so he needs to close his position. However, the liquidity of GFM09, which is the furthest month, is very low.

   Therefore Mr A should take a short position either on GFG09 or GFJ09 for a similar amount for hedging (stop loss), then he can close out the two contracts later when there is enough liquidity.

2. An investor has a long position in a contract and would like to close his position. However, the contracts in other series are trading at much better prices.

   Example On March 1, 2009, Mr A has a long position in GFJ09 and wants to close his position as the contract price has increased significantly. However, the price of another contract series, such as GFM09, is much higher comparable to that of GFJ09.

   Therefore, Mr A should short GFM09 for the same amount in order to hedge his position (lock in the profit), then close the two contracts later when the price of GFJ09 increases to the level of GFM09.

3. Price Speculation

   Example The price difference of GFV09 – GFQ09 now is equal to Bt50, but the investor expects the difference between the two contracts (GFV09 – GFQ09) to decline.

   Therefore, the investor could short GFQ09V09 at Bt50 and close out his positions in the two contracts when the price difference (GFV09 – GFQ09) declines by taking a long position in GFQ09V09.

Tips

1. The transaction cost of this strategy is double that of a directional trading strategy.
2. A combination order can be used with a calendar spread trading strategy.

8.2.2 Inter-Market Spread

Strategy Components

The inter-market spread consists of:

1. Long position in X futures contract
2. Short position in Y futures contract (different underlying asset and type of market)

The underlying assets for this strategy are those categorized in different types of markets, which can be referred to in Attachment 2.

Example

1. Long GFZ09 and short S50Z09
2. Short GFM09 and long PTTM09

Objectives of the strategy

1. The investor expects the return of one underlying asset to outperform that of another, which is of a different market type.

   Example Mr A expects the return of gold bullion to outperform that of SET50 Index. The difference between their price returns in percentage points will increase.

   Therefore, investors can apply Inter-Market Spread by:

   - Long GFM09 at a price of Bt14,000 for 3 contracts

   (total contract value is 14,000 x 3 x 50 = Bt2,100,000)

   - Short S50M09 at a price of 300 index points for 7 contracts

   (total contract value is 300 x 7 x 1,000 = Bt2,100,000)

   In order to close the position, he can short GFM09 for three contracts and long S50M09 for seven contracts.

Tips

1. The transaction cost of this strategy is double that of a directional trading strategy.
2. The combination order cannot be used with a calendar spread trading strategy.

Attachment 1

Examples of contract codes for SET50 Index Futures using a Single Order

Contract Code	Underlying Asset	Contract Month		Contract Year	
		Month	Code	Year	Code
GFG09	Gold Bullion	February	G	2009	09
GFJ09	Gold Bullion	April	J	2009	09
GFM09	Gold Bullion	June	M	2009	09
GFQ09	Gold Bullion	August	Q	2009	09
GFV09	Gold Bullion	October	V	2009	09
GFZ09	Gold Bullion	December	Z	2009	09

Examples of contract codes for SET50 Index Futures using Combination Orders

Contract Code	Underlying Asset	Contract Month				Contract Year	
		Month	Code	Month	Code	Year	Code
GFG09J09	Gold Bullion	February	G	April	J	2009	09
GFG09M09	Gold Bullion	February	G	June	M	2009	09
GFJ09M09	Gold Bullion	April	J	June	M	2009	09
GFJ09Q09	Gold Bullion	April	J	August	Q	2009	09
GFM09Q09	Gold Bullion	June	M	August	Q	2009	09
GFM09V09	Gold Bullion	June	M	October	V	2009	09
GFQ09V09	Gold Bullion	August	Q	October	V	2009	09
GFQ09Z09	Gold Bullion	August	Q	December	Z	2009	09
GFV09Z09	Gold Bullion	October	V	December	Z	2009	09
GFV09G10	Gold Bullion	October	V	February	G	2009	09
GFZ09G10	Gold Bullion	December	Z	February	G	2009	09
GFZ09J10	Gold Bullion	December	Z	April	J	2009	09

Attachment 2

Market types of each underlying asset

Underlying Asset	Market	Type of Contracts	
		Futures	Options
SET50	Index	✓	✓
ADVANC	Single Stock	✓	
PTT	Single Stock	✓	
PTTEP	Single Stock	✓	
GF	Metal	✓	