HongLeong Investment Bank

HL e Futures

FUTURES LINGO

ARBITRAGE

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Definition

The simultaneous purchase of cash or futures in one market against the sale of cash or futures in a different market in order to profit from a price disparity.

Users

Individual traders use arbitrage as an opportunity to exploit the price discrepancies between the cash market and futures market, capitalizing on the differences to generate risk-free profit.

Source: CME Group, Investopedia

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ARBITRAGING EXAMPLE

You are an arbitrageur and would like to profit from the price difference between the cash market and futures market of Kuala Lumpur Composite Index Futures Contract (FKLI).

Cash Market Price:	Futures Market Price:
1640	1630

On the last trading day, the price of the cash market is 1640 while the FKLI futures is 1630.

You buy the futures @1630 and let it expire and cash settle. You eventually earn a profit of 10 points.