ABSTRACT: The impact of the Stock Futures Trading to spot market has been considered by many countries all around the world. The debate on whether Stock Futures destabilizes or stabilizes the spot market has been well established in the developed market and emerging market on the Stock Index level. This research aims to examine the impact of the introduction of the Single Stock Futures on the volatility of the underlying equity in the Stock Exchange of Thailand from year 2006 to 2012, using the GARCH model. Based on (GARCH 1,1) model analysis, this study showed the introduction of Single Stock Futures stabilized the spot market volatility in Thailand. The coefficient γ of all 11 stocks shows a statistically significant level. Additionally, the SET Index was included and set up another model to test as another factor that causes volatility and found post-futures period volatility in the spot market decreased after an introduction of Single Stock Futures trading. In conclusion, the introduction of Single Stock Futures trading decreases the spot price volatility in the market. By considering (SET) as market factors, the results also found most Single Stock Futures trading also decreases the spot price volatility.

Keywords: Single Stock Futures, SSF, Stock Volatility, GARCH, spot market volatility

Introduction

Historically derivatives were first used to secure the supply of the commodity and trade to help insure farmers against crop failure. They developed to serve for other purposes such as the source of funding. (EFTA Seminar on Regulation of Derivatives markets, Zurich, 3 May 2012). The Derivative markets relate to the spot market as it provides the function of price discovery and risk management. A kind of Derivatives instrument which are the Futures allows traders to expose to higher opportunity to make a profit with lower transaction cost which also provides higher leverage, (Bessembinder & Paul, 1992). The futures contract also offers institutional investors the opportunity to reduce the risk in their portfolio by hedging and increases in leverage which help enhance the liquidity.

Empirically, the research on the impact of futures trading on the volatility of the underlying asset has been one of the most well-researched topics in many countries (Bessembinder & Paul, 1992, Grossman & Miller, 1988, Zonghao 2014, Faff & McKenzie, 2002). Nevertheless, academic literature has noted conflicting results, particularly whether the effect of the futures trading has increased or decreased the volatility of the underlying assets. According to Stoll and Whaley (1988), the introduction of S&P 500 futures contracts stabilized the volatility of the underlying spot market. Similarly, Bessembinder and Paul (1992) discovered that the introduction of S&P 500 futures trading decreased the spot volatility of S&P 500. Furthermore, Grossman and Miller (1988) discovered that index arbitrageur helped improve the market depth. These findings were also supported by the earlier work of Danthine (1978), which concluded that the existence of futures markets