

ABSTRACT

The aims of this paper were to investigate the existence of long-run relationship between spot and futures prices and to detect the short-run dynamic relationship between spot and futures prices in the context of Thailand. The Unit Root tests, Cointegration tests, and Vector Error Correction Model (VECM) tests were applied in this paper. The two products that were selected to study are Ribbed Smoked Rubber Sheet No.3 (RSS3) and SET50 index. The daily spot and futures prices of RSS3 and SET50 index were gathered since the first day of trading, on May 28, 2004 for RSS3 and on April 28, 2006 for SET50 Index, until May 31, 2013 to investigate the long-run and short-run relationships between the spot and futures prices.

By applying Unit Root tests, all data series were found to be stationary at first difference. The Cointegration tests by both Engle-Granger and Johansen methods were applied. The results from both tests are the same which prove that there are long-run relationships between RSS3 spot prices and RSS3 futures prices and between SET50 index spot prices and SET50 index futures prices. Later, the VECM tests were applied, and it was found out that the relationship between RSS3 spot prices and RSS3 futures prices is bidirectional. However, in the case of SET50 index, the result shows that SET50 index spot price leads SET50 index futures price.

The results of this paper may provide benefits to both Thai and foreign investors and speculators who participate in the trading of RSS3 and SET50 index. They can hedge their exposure or speculate their returns by using the leading prices as the indicators to invest in lagging price's assets more properly since the changes in lagged prices can be explained by the leading prices. Moreover, the rubber tree planters will also get the benefit from the results of this paper in designing their hedging strategy to prevent themselves from unfavorable price movement during harvest time. In addition, the corporations that sell and/or export rubbers and its related products and also the corporations that use rubbers as their main raw material may also use the results of this study to properly construct their hedging program. In terms of academic contribution, the result of this study may add more updated empirical evidence on the

studies regarding Thailand’s futures market, which are considered to be limited at the present time.

