



Making your Yen Count - Trading Strategies on Japan via SGX-listed Futures Contracts

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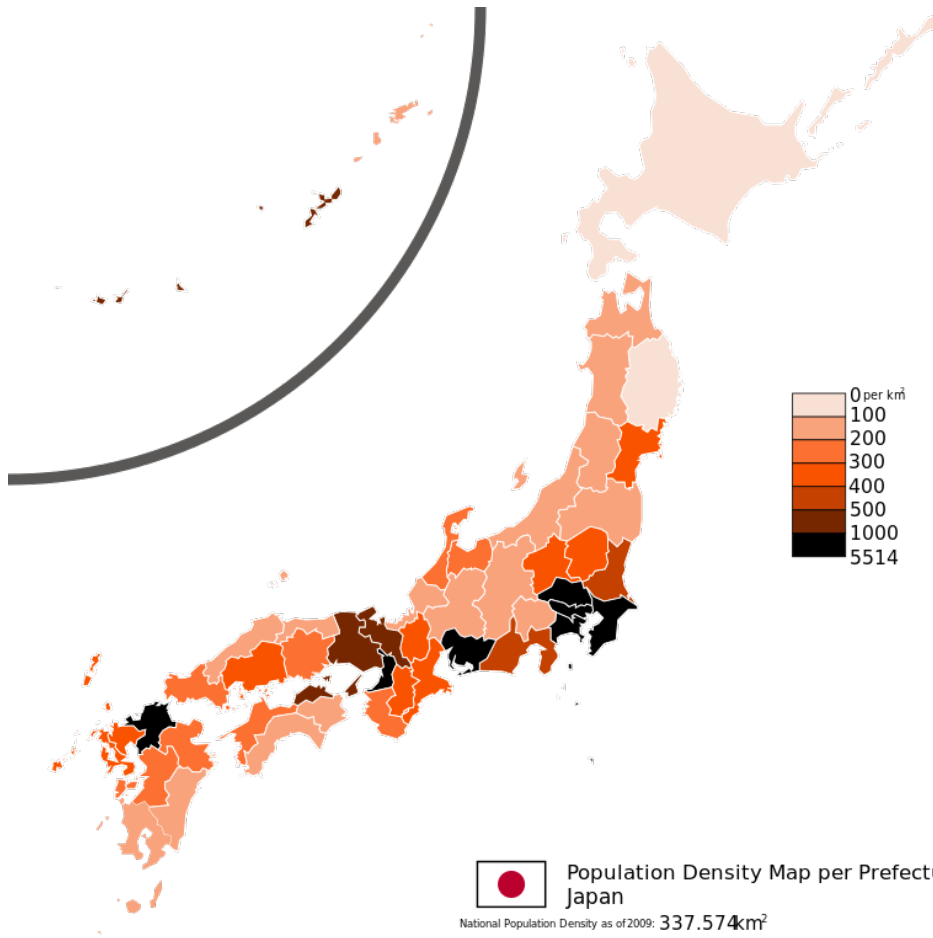
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About Tariq Dennison, CFP^{CM}

- Manages accounts on the IBKR platform
 - US Advisor: GFM Asset Management LLC
 - HK Advisor: GFM Group Limited
- 15 years capital markets experience
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Lecturer at ESSEC Business School
- Prolific Speaker, Writer, and Traveler
- Avid follower of both Asian markets and US politics and tax policy
- CERTIFIED FINANCIAL PLANNER CM professional



About Japan



https://en.wikipedia.org/wiki/File:Japan_Population_density_map.svg

Population: 126 mio

GDP: US\$5tri (PPP&OFX)

GN Savings: 27%

vs 18% US, 47% China

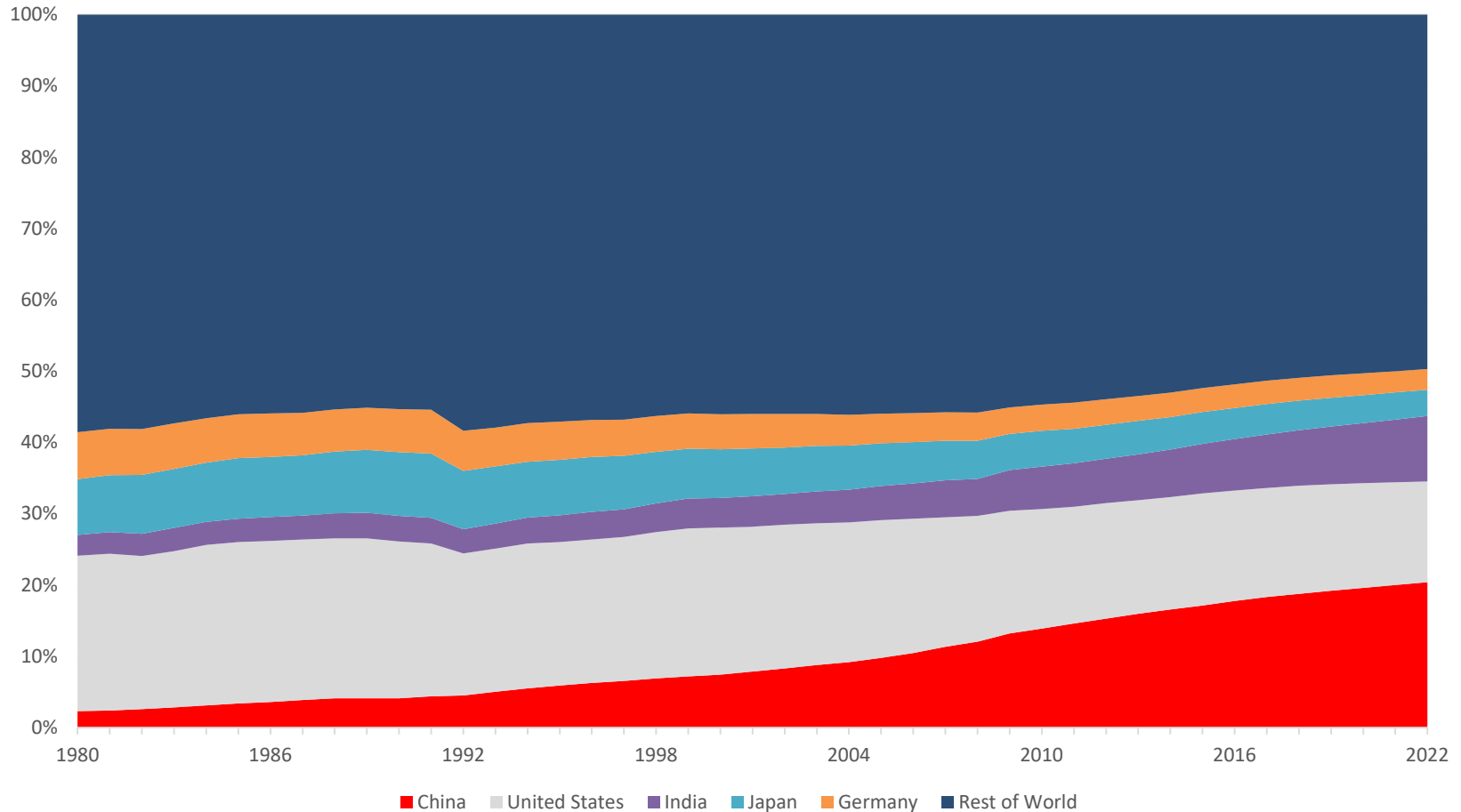
Debt 235% of GDP (#1)

Market Cap: US\$5tri (#4)

M1: US\$6tri (#3, after
China, EU, ahead of US)

Japan's share of world GDP since 1980

Share of Global GDP: Top 5 2017 Economies



Source: IMF WEO Database

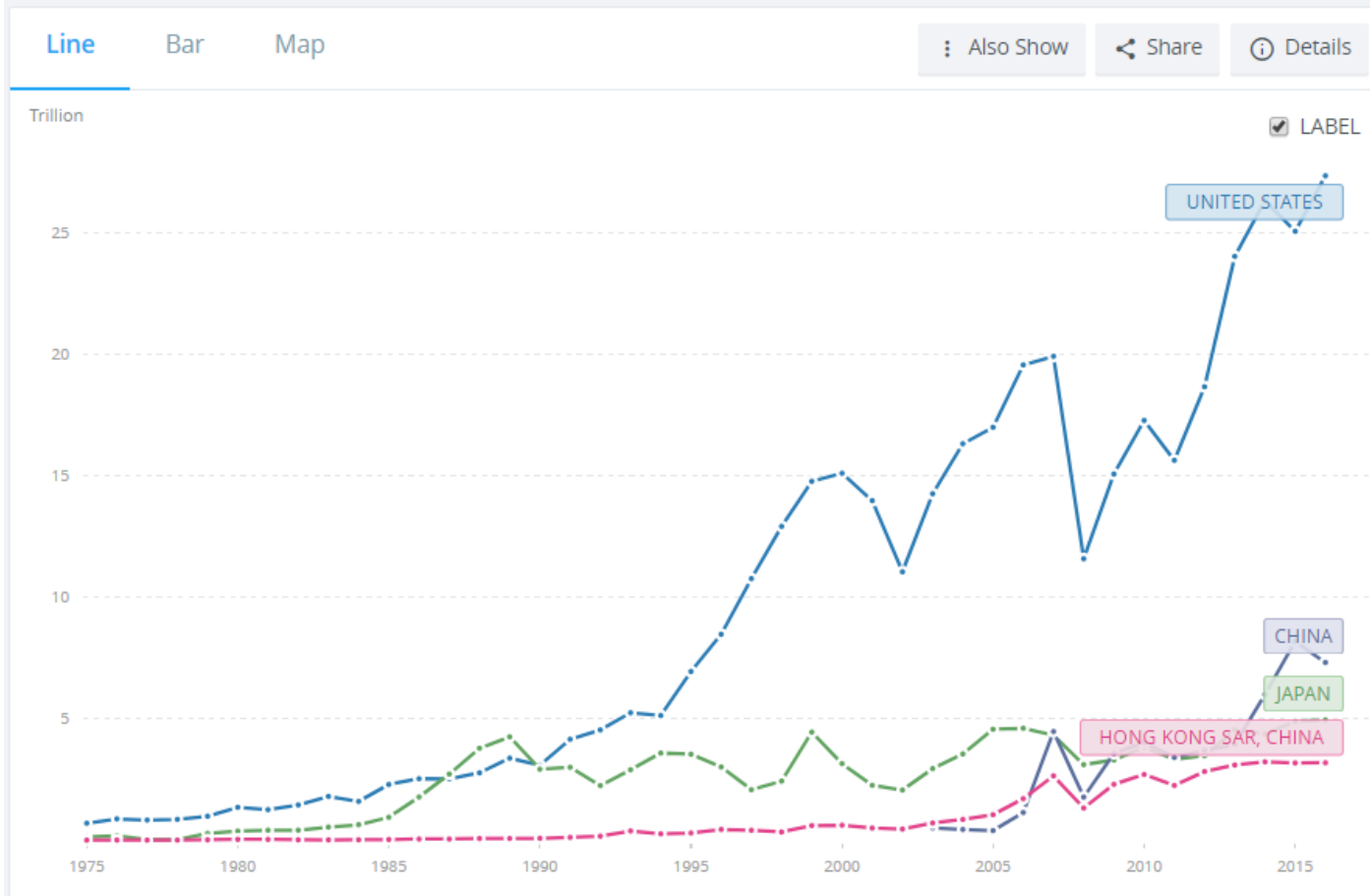
Japan Market Cap has fallen behind the US and China A...

https://data.worldbank.org/indicator/CM.MKT.LCAP.CD?locations=US-JP-CN-HK&year_high_desc=true

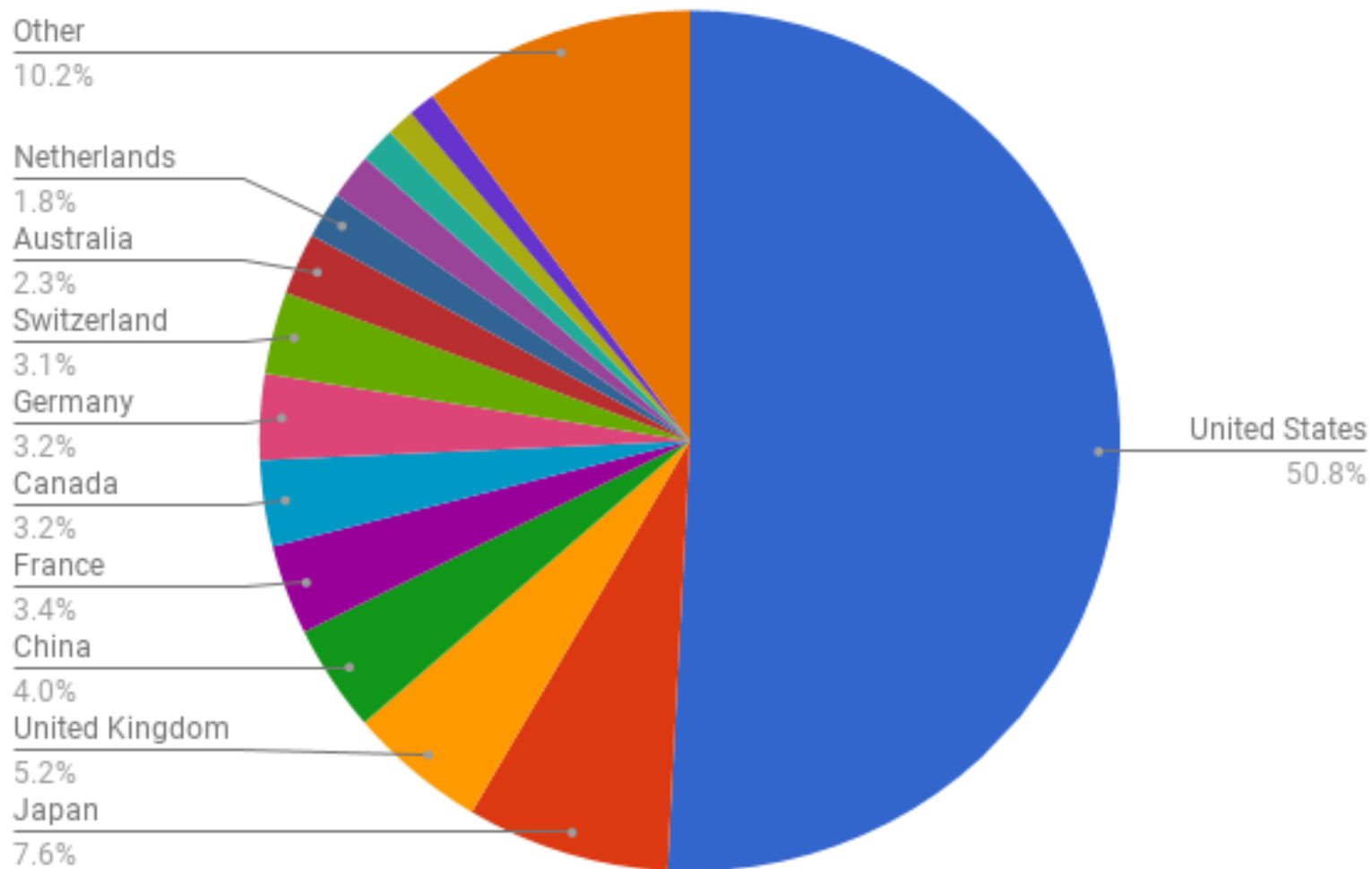
Market capitalization of listed domestic companies (current US\$)

World Federation of Exchanges database.

License: [Open](#)



... but remains #2 in MSCI ACWI Weighting



Source: iShares ACWI Data

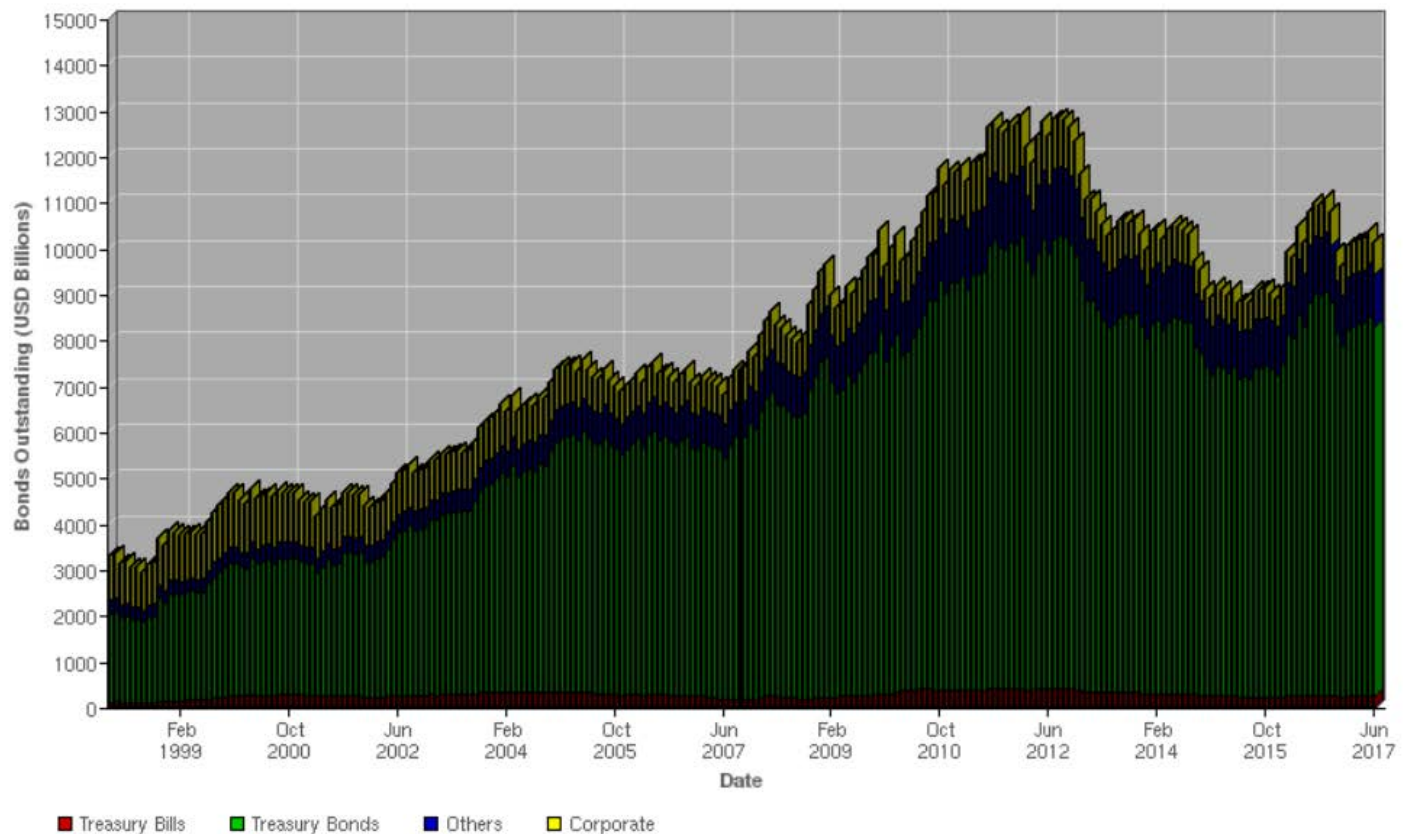
Japan's Bond Market Worth Over US\$10 trillion, most JGB

https://asianbondsonline.adb.org/japan/data/bondmarket.php?code=Bonds_Outstanding_Monthly

Monthly Bonds Outstanding in USD

Data vary across markets. For details download spreadsheet.

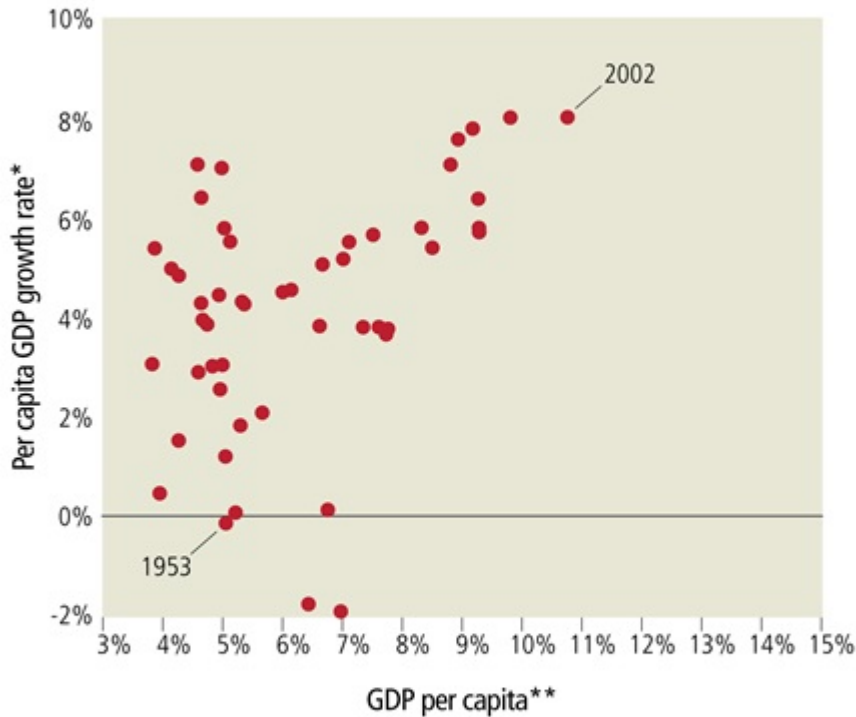
 Downloadable



Population Pyramids: Demography vs Yield Curves

FIGURE 3

China, 1953-2002



Note: Red dots indicate the rising growth rates of early years; blue dots indicate the declining growth rates of later years. Peak years for Japan and South Korea were, respectively, 1961 and 1986.

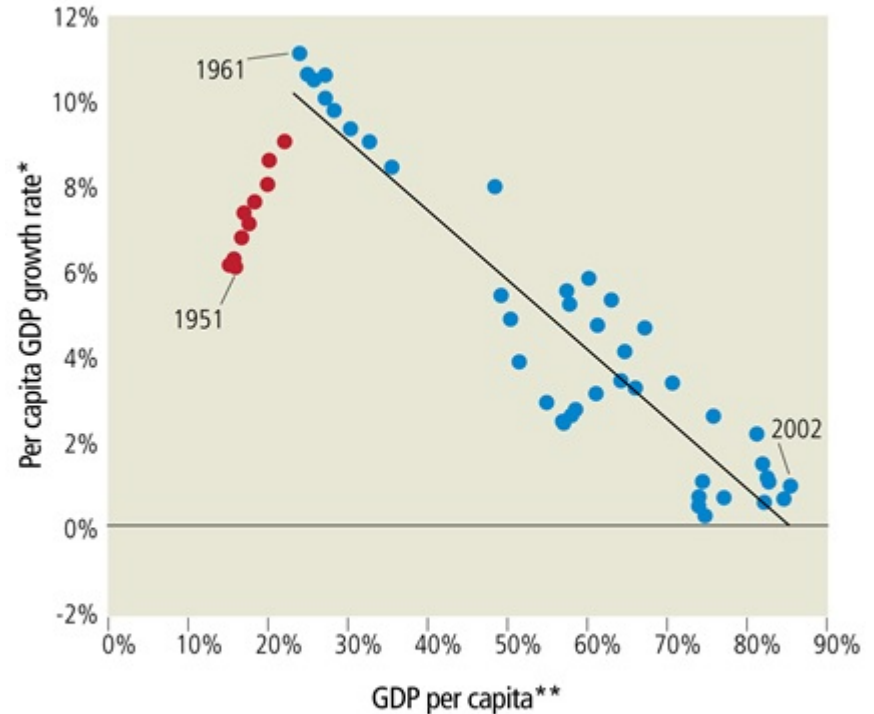
*10-year moving average

**Relative to U.S.; PPP-adjusted

Sources: Penn World Table 8.0. at www.ggd.net/pwt; authors' calculations

FIGURE 1

Japan, 1951-2002



Note: Red dots indicate the rising growth rates of early years; blue dots indicate the declining growth rates of later years. Peak years for Japan and South Korea were, respectively, 1961 and 1986.

*10-year moving average

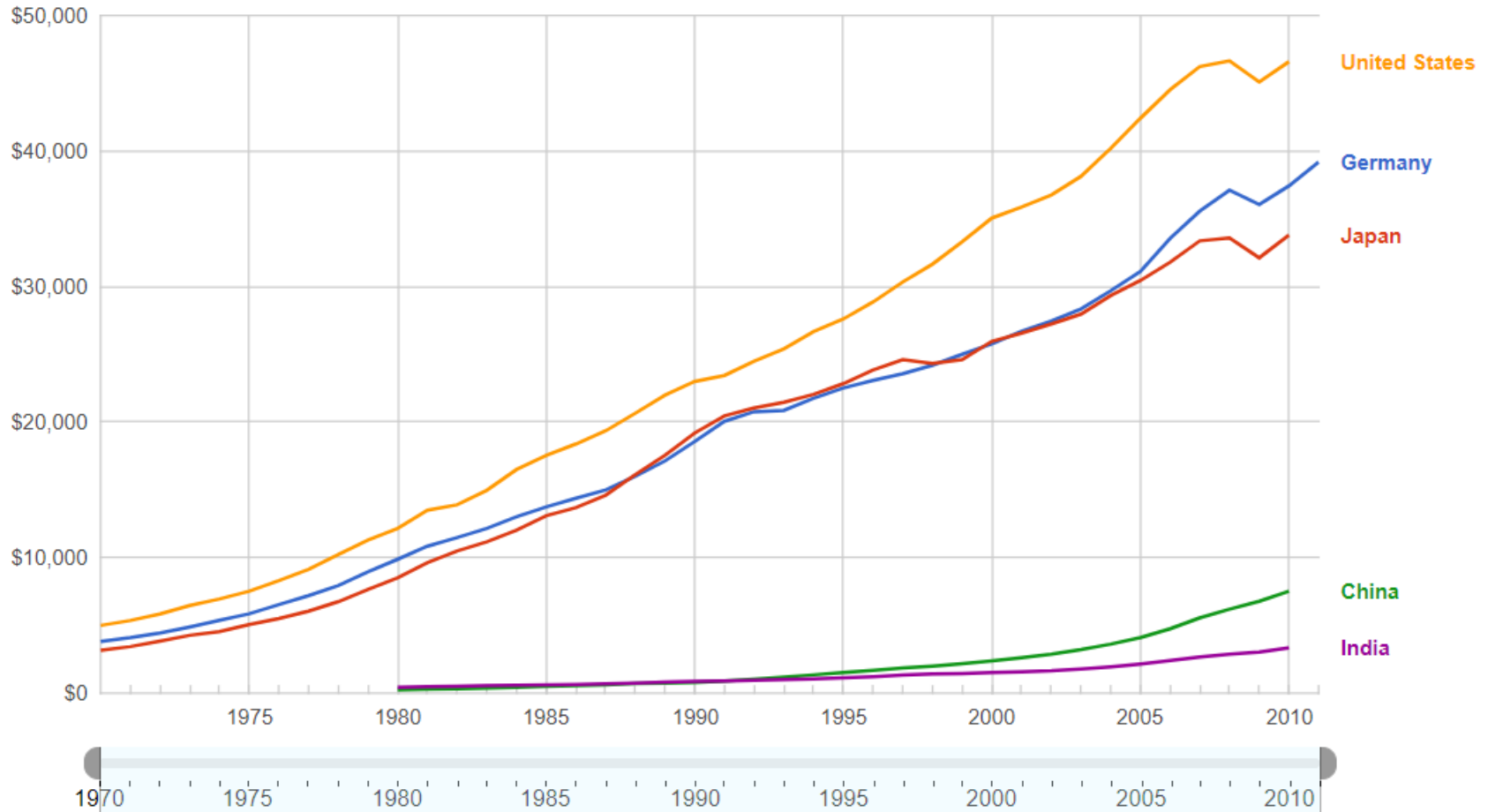
**Relative to U.S.; PPP-adjusted

Sources: Penn World Table 8.0. at www.ggd.net/pwt; authors' calculations

Source: <https://www.minneapolisfed.org/publications/the-region/how-rich-will-china-become>

Population Pyramids: Demography vs Yield Curves

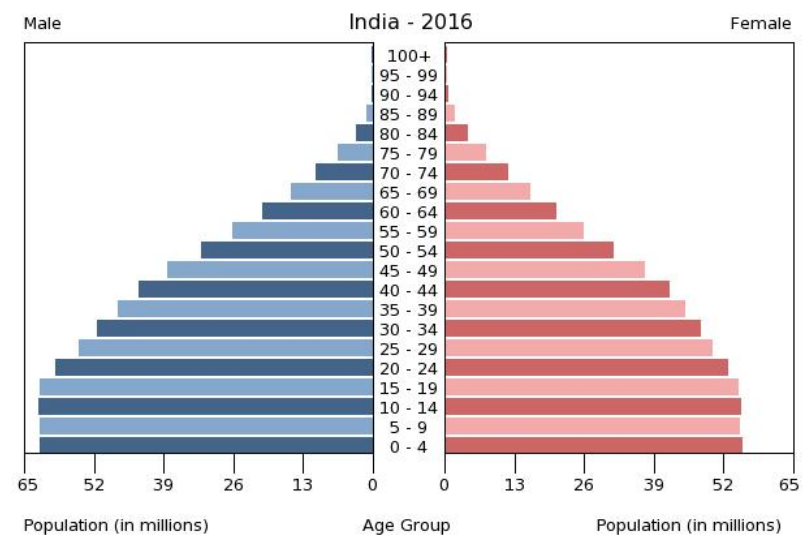
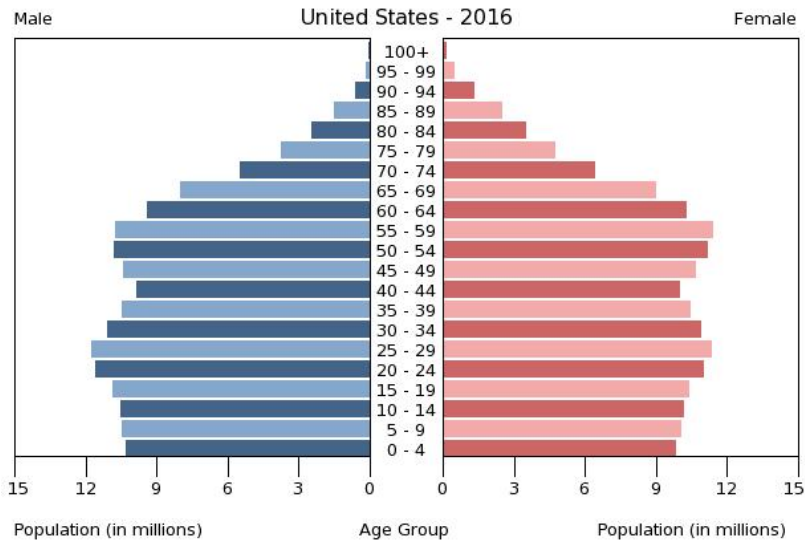
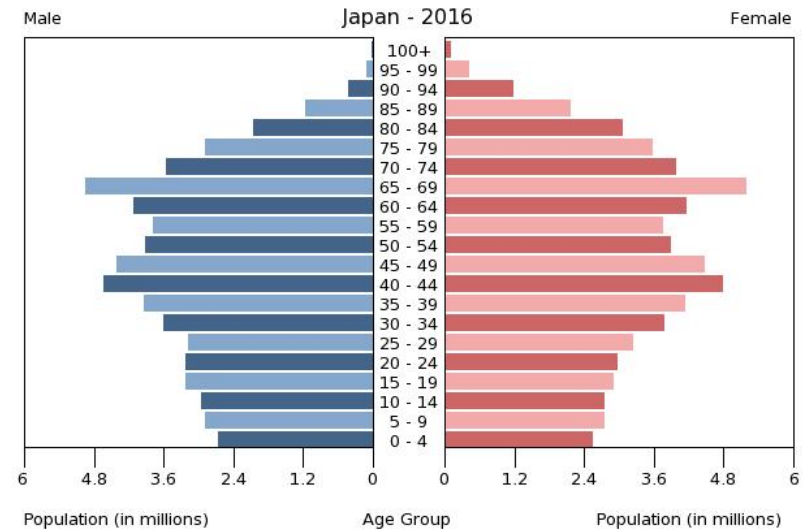
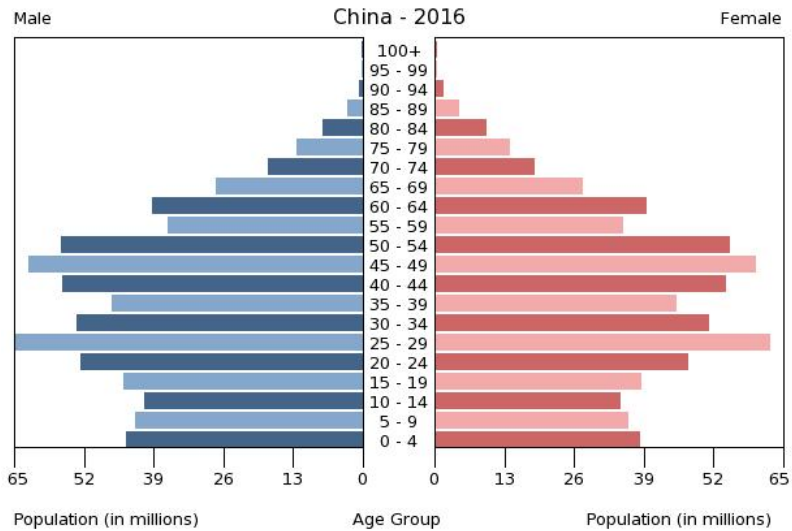
GDP per capita ?



Data from [OECD Factbook 2013](#) Last updated: Aug 5, 2013

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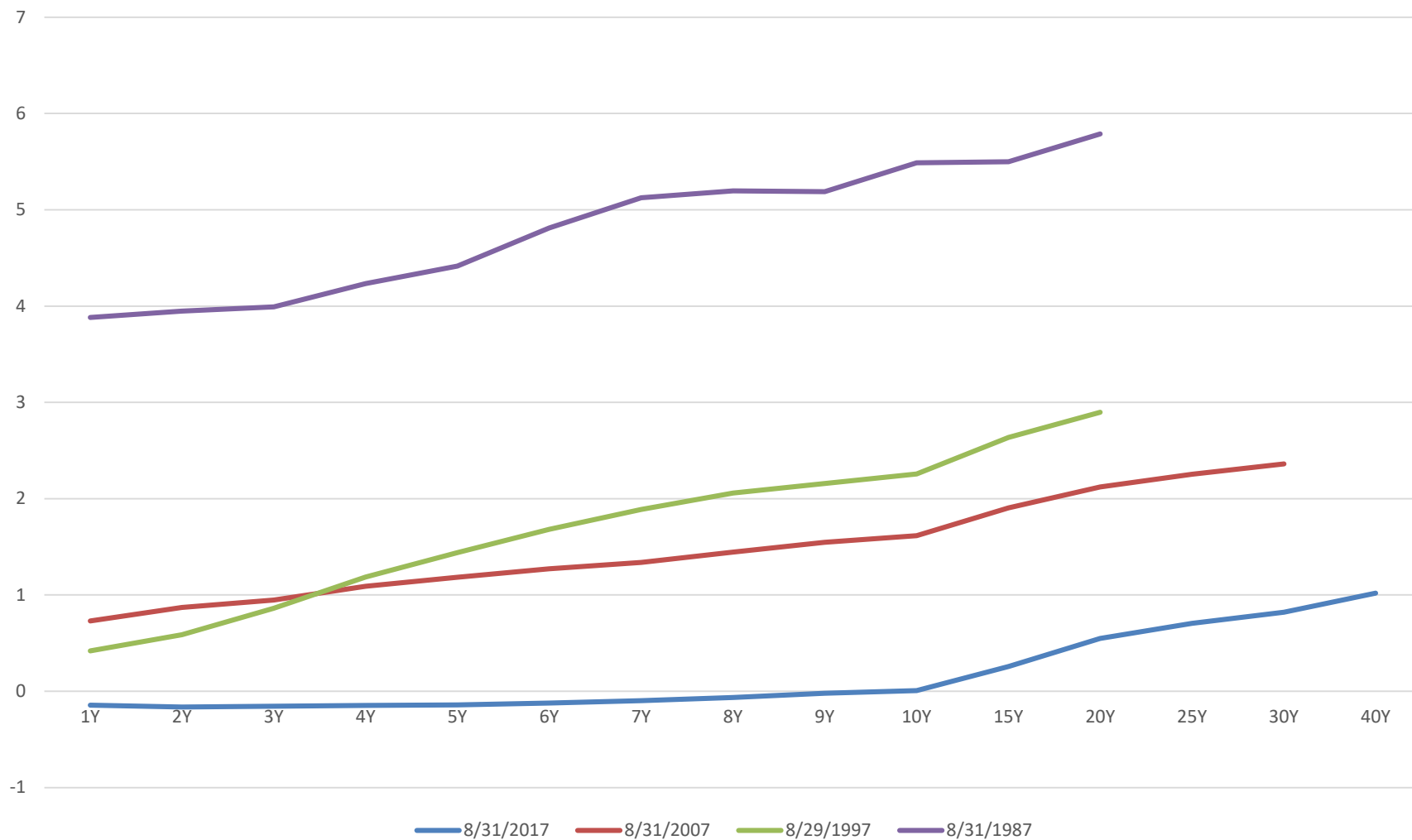
Population Pyramids: Demography vs Yield Curves



Source: CIA World Factbook

Older Population → Lower Yields

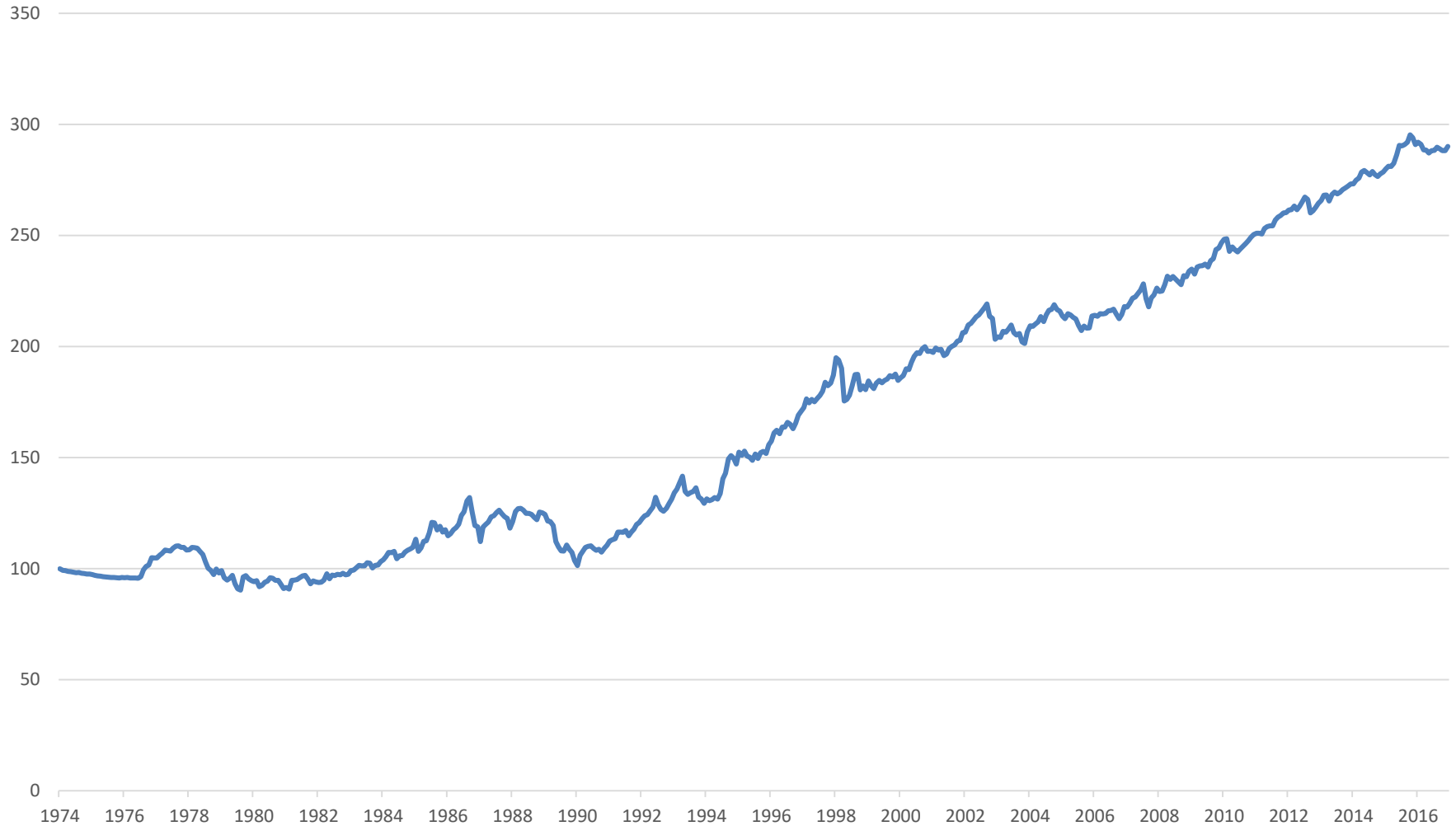
Japan JGB Yield Curves: 1987, 1997, 2007, 2017



Source: http://www.mof.go.jp/english/jgbs/reference/interest_rate/index.htm

JGBs have performed extremely well since 1990

Excess Return of 100 Invested in Rolling 9 Year JGBs



Source: http://www.mof.go.jp/english/jgbs/reference/interest_rate/index.htm

Moving from Bonds to Stocks: About the Nikkei 225 Index

- Nikkei 225 Index is the most widely quoted index of Japanese equities.
- Representing Asia's biggest advanced economy, the Nikkei 225 Index was also the first Asian equity index to be represented in the futures market.
- SGX (then SIMEX) pioneered Nikkei 225 Futures more than 30 years ago. Options on the Nikkei 225 Index are traded in both Singapore and Osaka.



Source: Bloomberg, 4 October 2017

Moving from Bonds to Stocks: About the Nikkei 225 Index

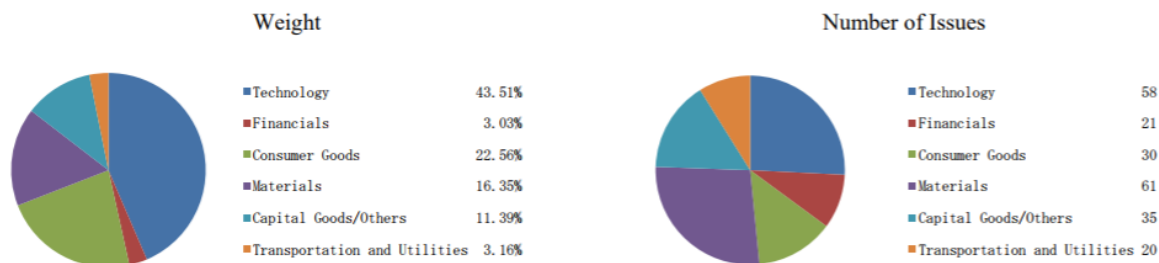
- Last widely used major price-weighted index (after DJIA)
- Main alternatives: TOPIX and MSCI Japan (Top 9% in Toyota, MUFG & Softbank)
- Nikkei 225 Futures trade in Osaka, Singapore and Chicago
- Covers 60% of the market cap of TSE Section 1

https://indexes.nikkei.co.jp/nkave/archives/file/nikkei_stock_average_factsheet_en.pdf

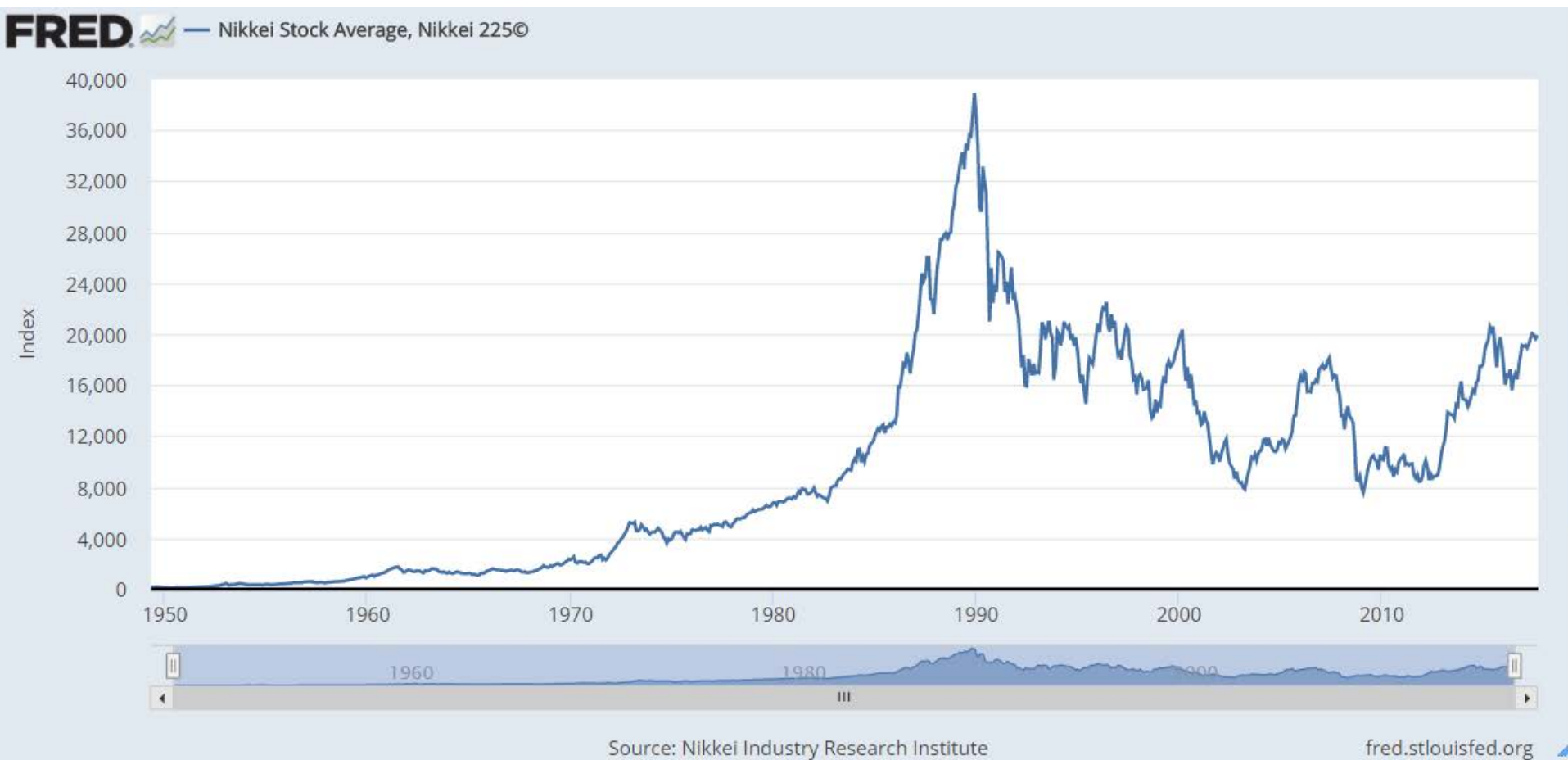
■ Top 10 Components by weight (Dec/30/2016)

| Company | Code | Sector | Nikkei Industry Classification | Weight (%) | ParValue (yen) | Price (yen) | PER | PBR | Dividend Yield (%) |
|--------------------|------|----------------------|--------------------------------|------------|----------------|-------------|-------|------|--------------------|
| Fast Retailing | 9983 | Consumer Goods | Retail | 8.40 | 50 | 41830 | 42.65 | 7.42 | 0.84 |
| Softbank Group | 9984 | Technology | Communications | 4.68 | 50/3 | 23295 | 9.55 | 3.69 | 0.57 |
| Fanuc | 6954 | Technology | Electric Machinery | 3.98 | 50 | 19815 | 36.90 | 2.95 | 1.63 |
| KDDI | 9433 | Technology | Communications | 3.56 | 25/3 | 17757 | 13.47 | 2.13 | 2.70 |
| Kyocera | 6971 | Technology | Electric Machinery | 2.33 | 25 | 11624 | 25.14 | 0.94 | 1.72 |
| Tokyo Electron | 8035 | Technology | Electric Machinery | 2.22 | 50 | 11045 | 18.12 | 3.14 | 2.76 |
| Daikin Industries | 6367 | Capital Goods/Others | Machinery | 2.15 | 50 | 10735 | 21.64 | 3.24 | 1.12 |
| Shin-Etsu Chemical | 4063 | Materials | Chemicals | 1.82 | 50 | 9067 | 24.14 | 1.96 | 1.32 |
| Nitto Denko | 6988 | Materials | Chemicals | 1.80 | 50 | 8969 | 29.12 | 2.46 | 1.67 |
| Terumo | 4543 | Technology | Precision Instruments | 1.73 | 25 | 8630 | 32.97 | 3.28 | 0.95 |

■ Sector Weight (Dec/30/2016)



Nikkei 225 Chart: 1949 - 2017



Source: St Louis Fed

Nikkei 225 History: from 100 to 40,000 to 20,000

- 1950: Dow ~ 220, Nikkei ~ 100.
- Nikkei first crossed 1,000 in 1960, the Dow at 680,
- Nikkei then rose to 2,400 by 1970, Dow first crossed 1,000 in 1972
- In 1980, the Nikkei hit 7,000, Dow still below its 1973 high of 1,051.71
 - Dollar weakened from 360 yen to 240 yen over the previous decade.
- Nikkei crossed 20,000 in January 1987
- Nikkei historic high of 38,915.87 in December 1989
 - Dow rose 1,000 to 2,800 over the 1980s
 - Dollar fell from 240 yen to around 150 yen.
- Nikkei crashes, trades between 15,000 and 25,000 for most of the 1990s
 - Dow rose from 2,800 in 1990 to crossing 10,000 and then 11,000 in late 1999.
 - Dollar range bound, falling to 120 at the end of the 1990s.
- Both fall in the early 2000s (dot-com bust, and post-9/11 recession)
 - Japan short-term rates first hit zero in 2001.
 - Dow hits new highs of 12,000 through 14,000 in 2006
 - Nikkei remains below 20,000, hits 30+ year low of 7,054.98 in early 2009.
 - The dollar moderately weakened in the 2000s from 120 to 90 yen.
- 2010s, Dow breaks 20,000, Nikkei recovers to 20,000 as yen falls to 110-120.

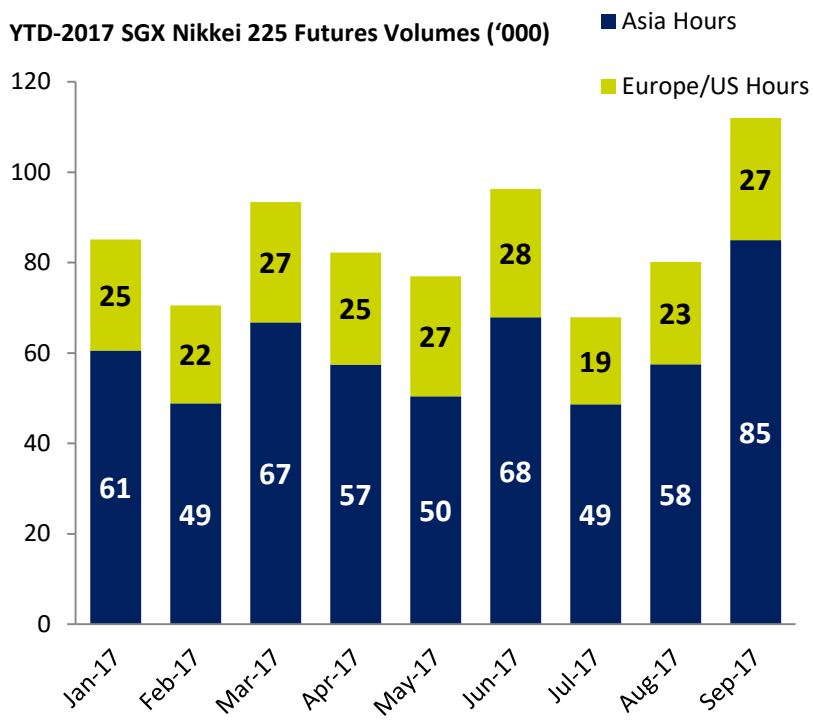
Source: <https://seekingalpha.com/article/4040444-dow-20000-matter-u-s-blue-chips-price-weighted-indices>

SIMEX Nikkei's Most (In)famous Trader

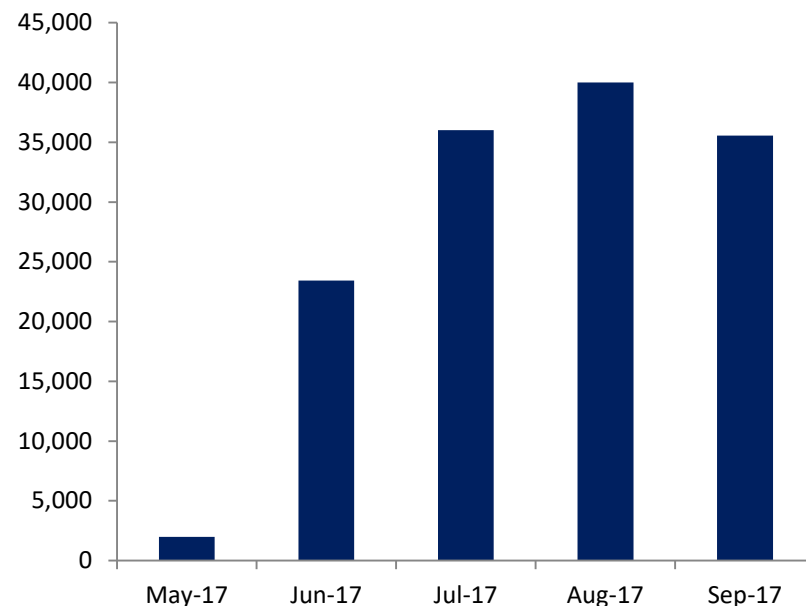


Source: <http://www.nickleeson.com/biography/>

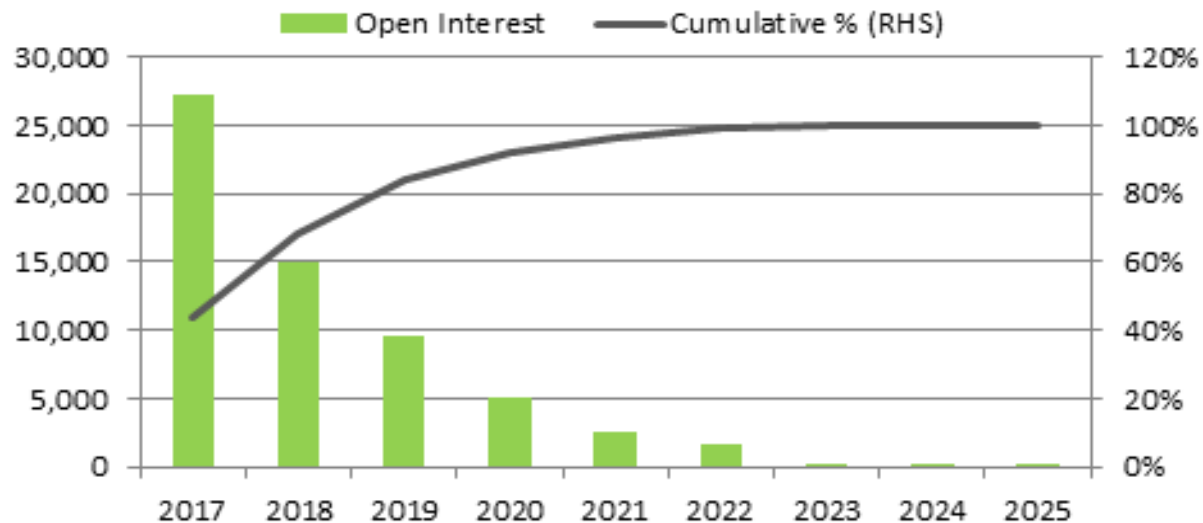
1. SGX Nikkei Futures is the most liquid SGX derivatives product in terms of notional value traded with USD10 Billion traded daily in September 2017, this translates into more than 110,000 lots per day.
 - Most liquid night session, trading close to 21 hours a day (opening before and closing after OSE Nikkei)
 - Open for trading on Japan holidays so you can use it when global events take place during a Japan holiday – the market is only closed on 1 Jan.
2. SGX Mini Nikkei has been slowly growing in liquidity over the past few months due to market maker’s support in narrowing bid-ask spreads to 3 index points (versus OSE Mini tick size of 5 index points). This small spread allows traders to execute trades on screen at a lower transaction cost, potentially increasing return.



SGX Mini Nikkei Futures Monthly Volume Growth (lots)



- SGX Nikkei Stock Average Dividend Point Index is an index that accumulates dividends received from the companies when investors are supposed to hold the constituents of the Nikkei Stock Average (Nikkei 225) on a calendar year basis, i.e. January to December in a year. The index is calculated by substituting the each actual dividend per share into the formula of the Nikkei 225 every time the each dividend value is fixed. Its final index value of the year is published at the beginning of April in the subsequent year after the all dividend payments of the constituents are fixed. The index is expressed with a year such as the Nikkei Stock Average Dividend Point Index (2011) since the index is calculated by accumulating the dividends every calendar year basis.



Sample Volumes of Nikkei and JGB Futures + Yen Futures

| | LAST | VLM TRDN... | | |
|---------------------------|------------|-------------|-----|-----------|
| SGXNK ∞ Dec07'17 @SGX | 20140 | 54.7K | JPY | 500 |
| SGXNKM ∞ Dec07'17 @SGX | 20139 | 930 | JPY | 100 |
| N225 ∞ Dec07'17 @OSE.JPN | 20140 | 5.42K | JPY | 1,000 |
| N225M ∞ Dec07'17 @OSE.JPN | 20140 | 77.6K | JPY | 100 |
| NIY ∞ Dec07'17 @GLOBEX | 20145 | 11.5K | JPY | 500 |
| NKD ∞ Dec07'17 @GLOBEX | 20180 | 4.66K | USD | 5 |
| N225U ∞ Dec07'17 @SGX | c20175 | | USD | 5 |
| | | | | |
| JGB ∞ Dec13'17 @OSE.JPN | 150.80 | 2.97K | JPY | 1,000,000 |
| SGB ∞ Dec12'17 @SGX | 150.79 | 994 | JPY | 100,000 |
| | | | | |
| JPY ∞ Dec18'17 @GLOBEX | 0.00901... | 71.2K | USD | |
| ISN ∞ Dec18'17 @ICEUS | c111.030 | | JPY | |
| UJ ∞ Oct16'17 @SGX | c111.145 | | JPY | |
| UY ∞ Oct16'17 @SGX | c111.145 | | JPY | |
| AJ ∞ Oct16'17 @SGX | c89.50 | | JPY | |
| KJ ∞ Oct16'17 @SGX | c98.57 | | JPY | |

Oct 22nd: General Election



Shinzo Abe
Lib Dem Party



Yuriko Koike
Kibo No To



Natsuo Yamaguchi
Komeito

Fed vs BOJ



Strategy 1: Long Nikkei

Drivers

- Roll yield
- Negative correlation
- Standard long futures trading strategies
- Limited Yen exposure

Long JGBs

Risks

- Stagflation
- Credit crisis

Strategy 2: Long Japan Stocks

Drivers

- Weaker Yen → stronger JP stocks
- Opportunity to select less currency sensitive names

Short Yen / Long FX Futures

Risks

- Stronger Yen → weaker JP stocks
- Margin requirements (if accounts not combined)

Strategy 3: Long Japan Stocks

Drivers

- Alpha in stock selection
- Index inefficiencies
- Beta hedge against broad equity sell-off

Short Nikkei Futures

Risks

- Flight to quality
- Illiquidity in non-index names
- Underperformance of selected portfolio



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