

JAN 2019

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# Daily Leverage Certificates on Index and Single Stocks

*Presented by:*

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*For Specified Investment Products (SIP) qualified investors only*



Exchange Partner



# DLC Milestones

July 2017

DLC first launch in Asia. 3x and 5x on indices

Jan 2018

7x DLC launch on indices

Feb 2018

“Most Innovative Product Launch”  
awarded by SGX

July 2018

DLC First Year Anniversary Party

Aug 2018

Most Preferred Product Issuer\*  
Award by Shareinvestor



Oct 2018

Total DLC turnover reaching **SGD 3.5bn**

Nov 2018

**5X single stock DLCs launch**

*\*Source: Shareinvestor, as of Sep 2018*

# ***Daily*** ***Leverage*** ***Certificate***

Listed and trade  
on the **SGX** like  
a stock

Leverage product  
linked to an  
**Underlying Asset**

# **Daily** **Leverage** **Certificate**

- Fixed daily leverage
  - Daily long or daily short
- 

- 3x / 5x / 7x and  
-3x / -5x / -7x daily leverage
  - Linked to an  
**Underlying Asset**
- 

- Traded on **SGX** like a stock
- Liquidity provided by  
Designated Market Maker  
(DMM) – **Societe Generale**

# DLC Monthly Turnover (Valued Traded)



Source: Societe Generale, data as of 31<sup>st</sup> Dec 2018

# Two Types of DLC – Daily Long and Daily Short

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■ Bullish   
Buy the **Long DLC**

■ Bearish   
Buy the **Short DLC**

# How DLC Provides Leverage

Daily % Performance of Underlying Asset

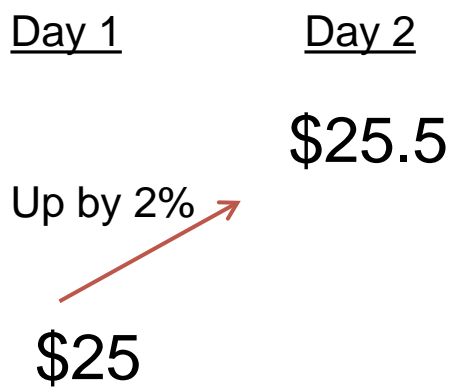
x

Times of Leverage

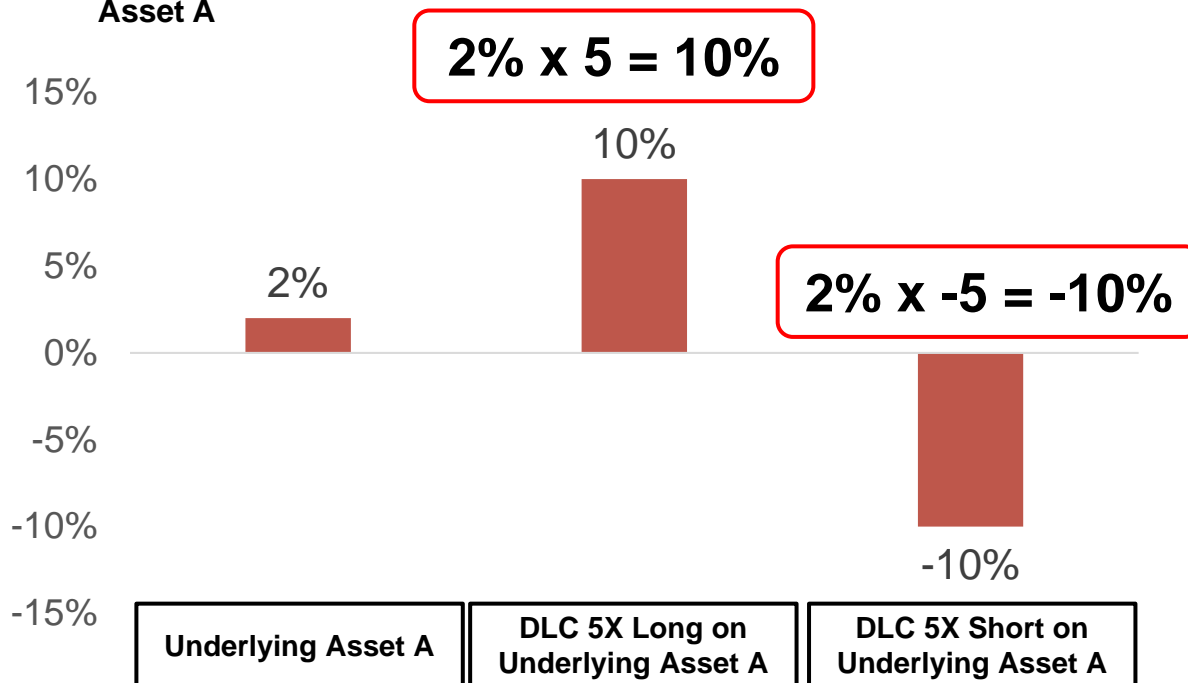
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Daily % Performance of DLC\*

## Example:









\*% is in terms of the price movement in stock A, corresponding DLC 5x Long on Underlying Asset A and DLC 5X Short on Underlying Asset A



\*Before Costs and Fees are factored in

# DLC: How to Calculate Profit and Loss

■ Example:


	Day 1	Day 2	
<b>Underlying Asset</b> 	100	101	 Up by 1%
	Buy @ SGD 1,000	Sell @ SGD 1,070	 (1 x 7x = 7%) <b>Up by 7%*</b>
<b>Underlying Asset</b> 	100	99	 Down by 1%
	Buy @ SGD 1,000	Sell @ SGD 930	 (-1 x 7x = -7%) <b>Down by 7%*</b>

\*Before costs and fees are factored in



# DLC: How to Calculate Profit and Loss

■ Example:

	Day 1	Day 2	
<b>Underlying Asset</b>	100	98	 Down by 2%
<b>7X Short DLC</b>	Buy @ SGD 2,000	Sell @ SGD 2,280	 (-2 x -7x = 14%) <b>Up by 14%*</b>
<b>Underlying Asset</b>	100	102	 Up by 2%
<b>7X Short DLC</b>	Buy @ SGD 2,000	Sell @ SGD 1,720	 (2 x -7x = -14%) <b>Down by 14%*</b>

\*Before costs and fees are factored in

# DLCs

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Simple

Fixed daily leverage\* with easy pricing formula

Transparent

Listed on the SGX. Everyone gets the same price

Long and Short

Allowing investors to leverage up and hedge against stock portfolios

# DLC vs Other Leverage Products

	<b>DLC</b>	<b>Buying Stocks on margin</b>	<b>Structured Warrants</b>
Exchange traded	Yes	Yes	Yes
Risk of margin call	No	Yes	No
Maximum loss	Initial capital	More than initial capital	Initial capital
Time decay and implied volatility	No	No	Yes

# How to trade a DLC?

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1. Have a stock account
2. Check with your broker if you are already qualified to trade SIP (Specified Investment Product)
3. Look up a DLC on the broker system
4. Analyze the stock fundamentally/technically and use DLC as a tool to express your view with leverage

# When do I use DLCs?

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## Day Trading

I try to capture intra-day movements of the underlying index or stock with less capital

## Swing Trading

Based on my technical analysis or events that I anticipate, I think the index or stock will do up/down in the coming days/weeks

## Hedging

I have some stock positions but am afraid of short-term market correction

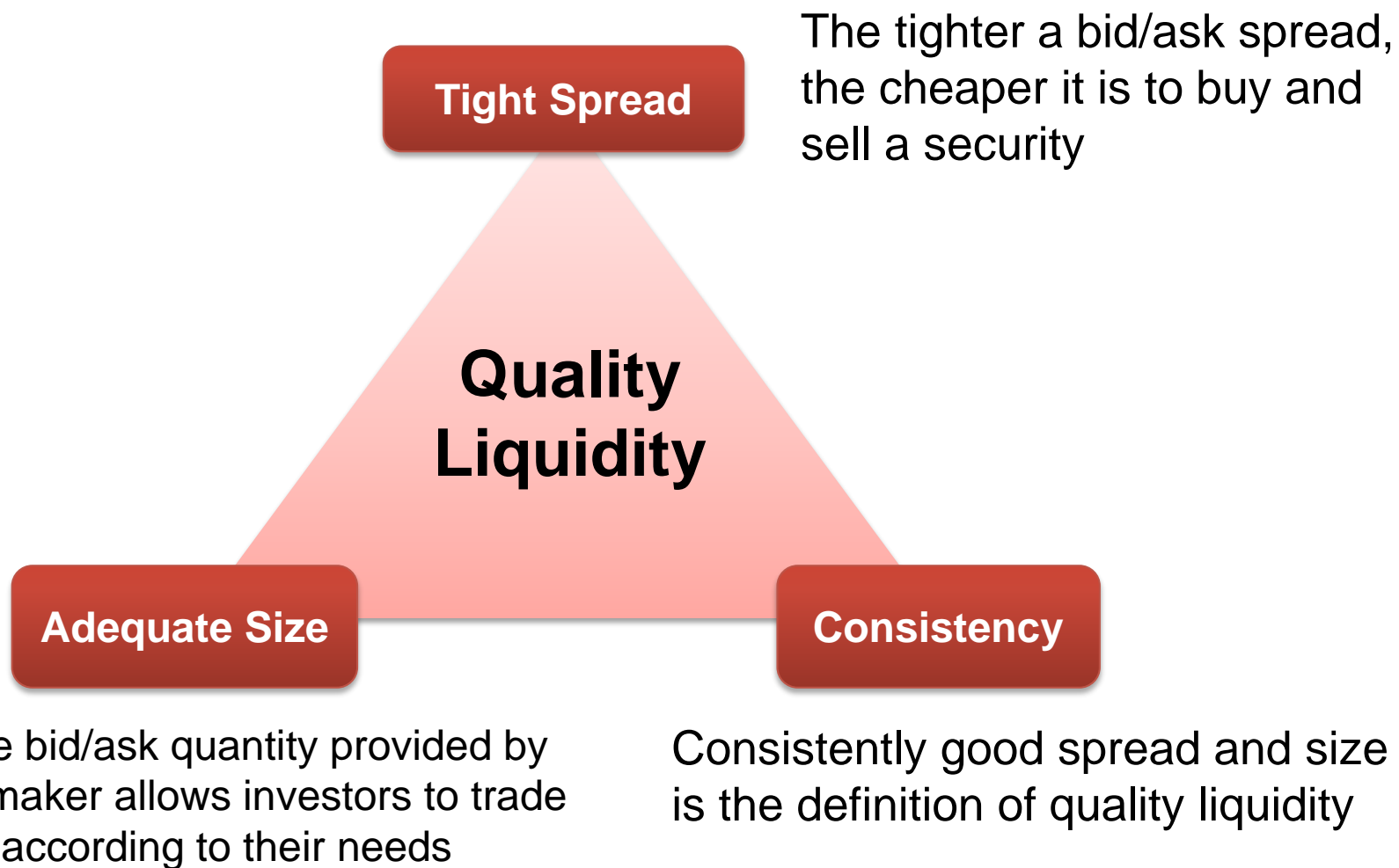


# Market Making and Liquidity Provision

How does it affect your trading

# DLC Liquidity Provision Quality

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# DLC Liquidity Provision Quality

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- DLC tick rule defined by SGX:

Price Range	Minimum Tick
0.001 to 0.199	0.001
0.2 to 1.995	0.005
2 and above	0.01

- As the Designated Market Maker of DLCs, Societe Generale strives to provide investors with tight and consistent bid/ask spread
- Liquidity is provided during trading hours of the Underlying Asset
  - Hong Kong Underlyings : 09:30am to 12:00pm ; 01:00pm to 04:00pm
  - Singapore Underlyings : 09:00am to 12:00pm ; 01:00pm to 05:00pm





# Others

Cost, Dividend, Corporate Action and Airbag treatment

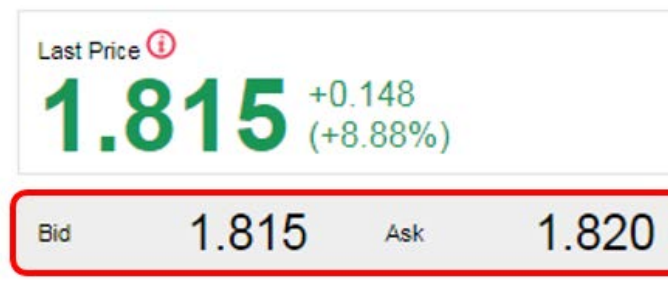
# Costs & Fees

- To buy and sell a DLC, there is a trading fee charged **by SGX** and commission **by your broker**. This is charged on top of your DLC price

Fee Type	DLC	Stock
Trading access fee	0.001%	0.0075%
Clearing fee	0.004%	0.0325%
Brokerage fee	Determined by broker	Determined by broker

- How does Societe Generale charge?

Costs & Fees charged by Societe Generale are priced in the DLC bid and ask quote. We do not charge anything on top of our bid and ask quote



# Costs & Fees Breakdown – Daily

- Costs and Fees are only charged if the DLCs are held overnight
- Taking 5X Long DLC on Stock A as an example
- Assuming:
  - The DLC value was at 1.5 previous day
  - Stock has moved up by 1% today

## Cost breakdown

Rebalancing Cost	0.0080%
Daily Funding	0.0162%
Gap Premium	0.0128%
Management Fee	0.0011%

Previous Day: DLC Price	1.5
Today: Stock A moves up by	1%
Today: DLC value before fees	1.5750
Today: DLC value after fees	1.5744
Daily charge =	<b>0.000582 (0.038%)</b>

- **The example above is specific to a 5x Long DLC on Stock A only. Costs & fees vary from product to product depending on several factors, including the underlying asset, leverage and whether it is a long or short DLC, which will need to be factored in**

# Airbag Mechanism

- The Air Bag Mechanism is a safety mechanism that is built into the DLC. It is designed to reduce the negative impact of an extreme move in the Underlying Asset during the day
- In more volatile markets, the Air Bag Mechanism can provide some valuable loss protection to investors.
- For a 5 times single stock DLC, the Air Bag will be triggered when the Underlying Asset moves against the DLC by 15%
- Investors should note however that the Air Bag Mechanism will also maintain a reduced exposure to the Underlying Asset even if the Underlying Asset starts to move in favor of the DLC after the Air Bag Mechanism has been triggered, thereby reducing its ability to recover losses for investors
- For a 5 times DLC, In the case of a big overnight drop of more than 20% (or 20% drop within the 15-minute observation period), the DLC would also result in a total loss

Underlying Type	Leverage	Airbag Trigger Level
Index	3x	20%
	5x	10%
	7x	10%
Stock	5x	15%

# Dividend – for single stock DLC

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- The DLC takes into account normal dividends of underlying stock in the Leverage Strategy. As such on an ex-dividend day, the performance of the Long DLC will not go down by the dividend amount and the performance of the Short DLC will not go up by the dividend amount.
- No announcement will be made with respect to normal dividends declared for the underlying stock

## ■ Example – Dividend

- Closing price of underlying stock before dividend on T day: 102
- Dividend amount of underlying stock : 2
- Closing price of underlying stock after dividend on T+1 day: 103
- (in DLC) adjustment of underlying stock price on T day =  $102 - 2 = 100$
- (in DLC) adjusted underlying stock performance =  $103 / 100 - 1 = 3\%$
- Expected 5x Long DLC performance on T+1 day =  $3\% \times 5 = 15\%$
- Airbag trigger level on T+1 day will be based on  $100 \times (1-15\%) = 85$



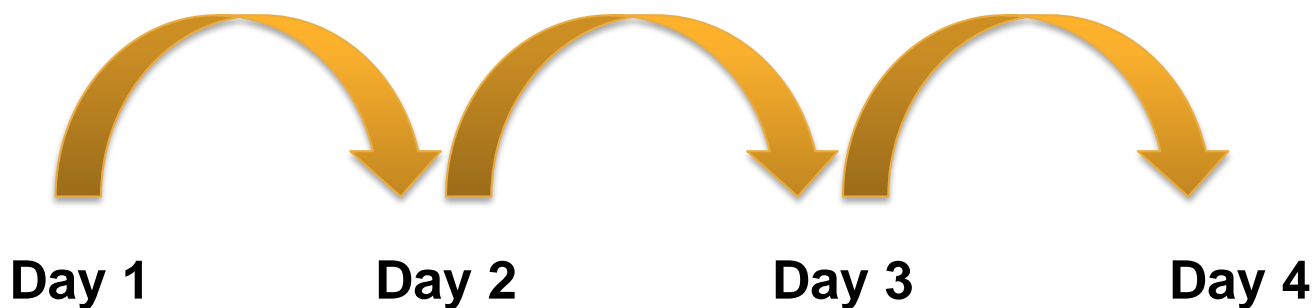
# Compounding Effect

How does it affect the performance of DLC

# Compounded Returns

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- DLCs are designed to deliver leveraged performance **on a daily basis**
- Exposure of a DLC is **reset at the end of each trading day**
- So if you hold DLC for longer than one day, your cumulative return on the DLC will be compounded, i.e. **the overall effective leverage could deviate from the leverage factor** of the corresponding DLC



- DLCs are not meant for long-term holding

# COMPOUNDED RETURNS

- Illustrative returns from a DLC with 7x Leverage (Long): 1) Trending 2) Volatile

Underlying		1	DLC (7x)	
	100.00		S\$2.50	
+1%				+7%
	101.00	Day 1	S\$2.68	
+2%				+14%
	103.02	Day 2	S\$3.05	
+1%				+7%
	104.05	Day 3	S\$3.27	
	<b>+4.05%</b>		<b>+30.52%</b>	

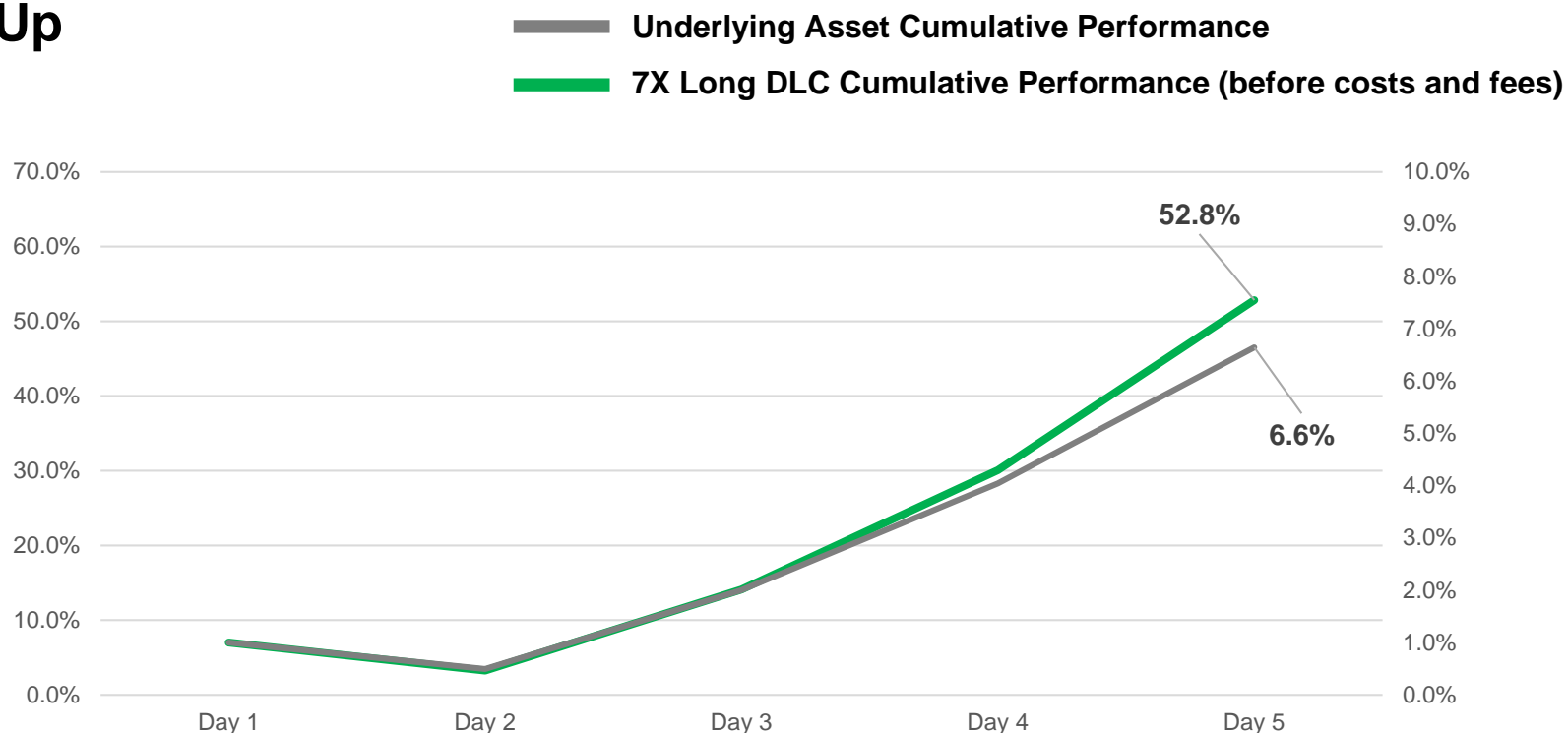
Underlying		2	DLC (7x)	
	100.00		S\$2.50	
+2%				+14%
	102.00	Day 1	S\$2.85	
-4%				-28%
	97.92	Day 2	S\$2.05	
+6.26%				+44%
	104.05	Day 3	S\$2.95	
	<b>+4.05%</b>		<b>+18.05%</b>	

- **The same performance of the underlying can result in a varying performance by a Daily Leverage Certificate.** In the following scenarios 1 and 2, the underlying reaches the same level of 104.05 after three days - however, on different “paths”. The Daily Leverage Certificate performs differently in each scenario. In scenario 1, the underlying is on a clear upward trend, whereas in scenario 2 it is not. In this case, the Daily Leverage Certificate performs better in scenario 1 than in scenario 2.



# Compounded Returns Illustration

## ■ 1) Trending Up

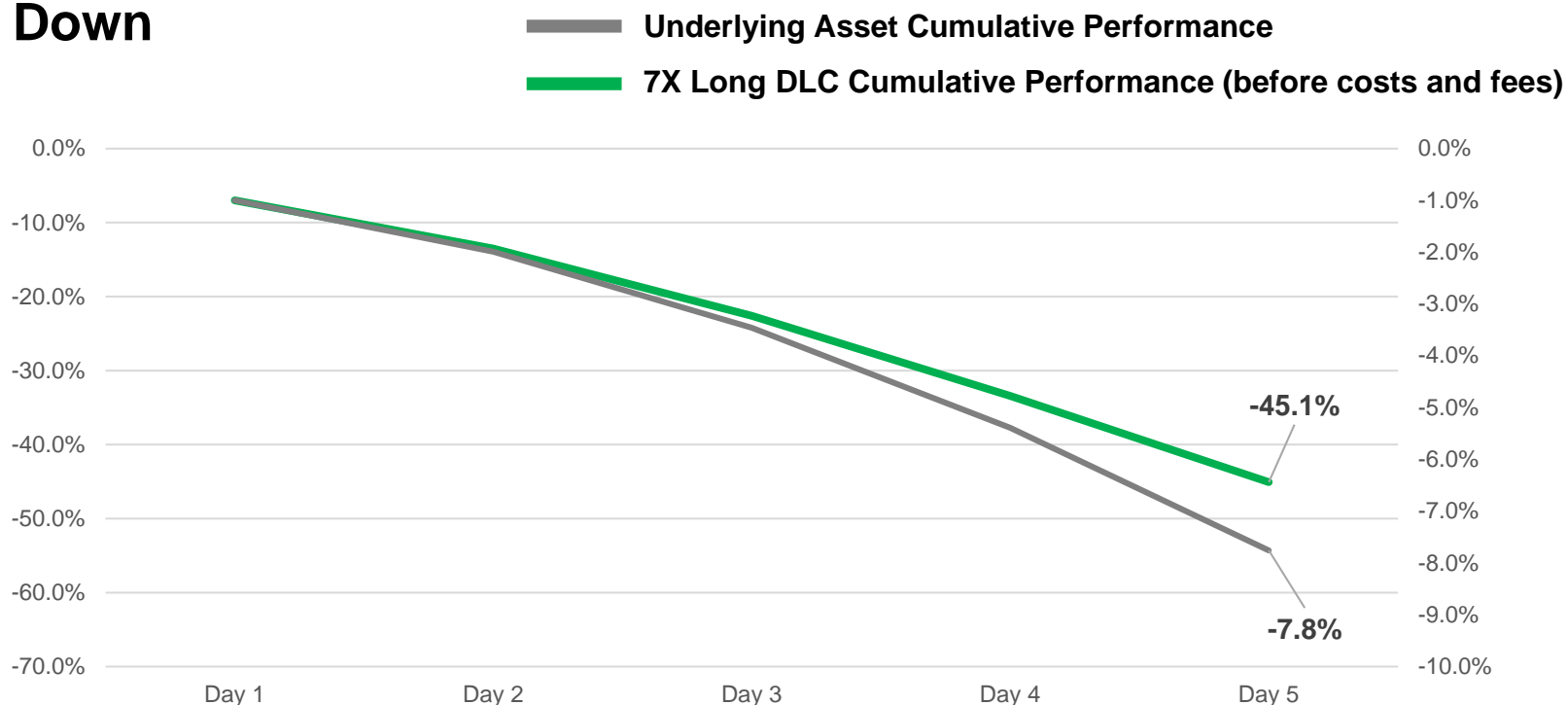


		Day 1	Day 2	Day 3	Day 4	Day 5
Daily Performance	DLC	7.0%	-3.5%	10.5%	14.0%	17.5%
	Index	1.0%	-0.5%	1.5%	2.0%	2.5%
Cumulative Performance	DLC	7.0%	3.3%	14.1%	30.1%	52.8%
	Index	1.0%	0.5%	2.0%	4.0%	6.6%

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# Compounded Returns Illustration

## ■ 2) Trending Down

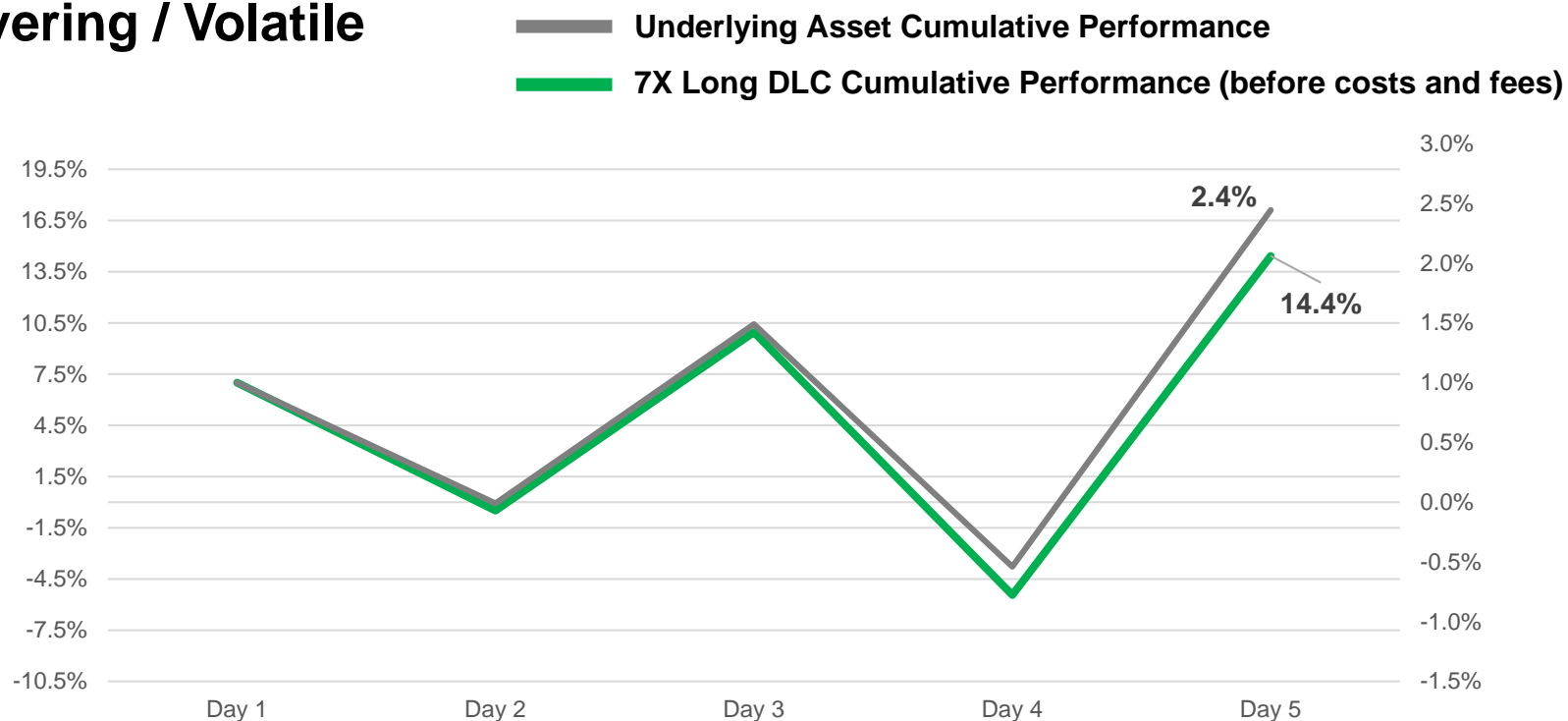


		Day 1	Day 2	Day 3	Day 4	Day 5
Daily Performance	DLC	-7.0%	-7.0%	-10.5%	-14.0%	-17.5%
	Index	-1.0%	-1.0%	-1.5%	-2.0%	-2.5%
Cumulative Performance	DLC	-7.0%	-13.5%	-22.6%	-33.4%	-45.1%
	Index	-1.0%	-2.0%	-3.5%	-5.4%	-7.8%

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# Compounded Returns Illustration

## ■ 3) Index Hovering / Volatile



		Day 1	Day 2	Day 3	Day 4	Day 5
Daily Performance	DLC	7.0%	-7.0%	10.5%	-14.0%	21.0%
	Index	1.0%	-1.0%	1.5%	-2.0%	3.0%
Cumulative Performance	DLC	7.0%	-0.5%	10.0%	-5.4%	14.4%
	Index	1.0%	0.0%	1.5%	-0.5%	2.4%

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