



Trading Index Futures on the JPX Market

- An Introduction to TOPIX and the N/T Ratio Trade -

December, 2013
Tokyo Stock Exchange

What is TOPIX?

1. Representative index of Japanese stock market



2. Includes all stocks listed on TSE 1st section

1st section

1,722 of the biggest, most liquid stocks

2nd section

562 stocks

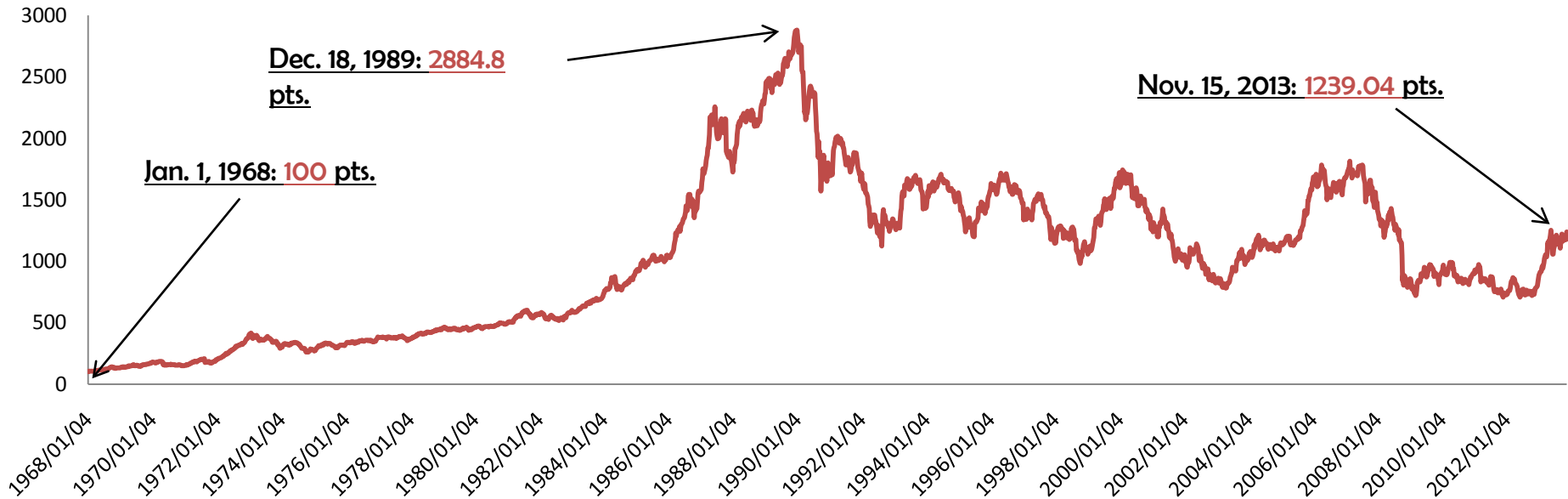
Mothers

185 stocks

882 stocks

Jasdaq

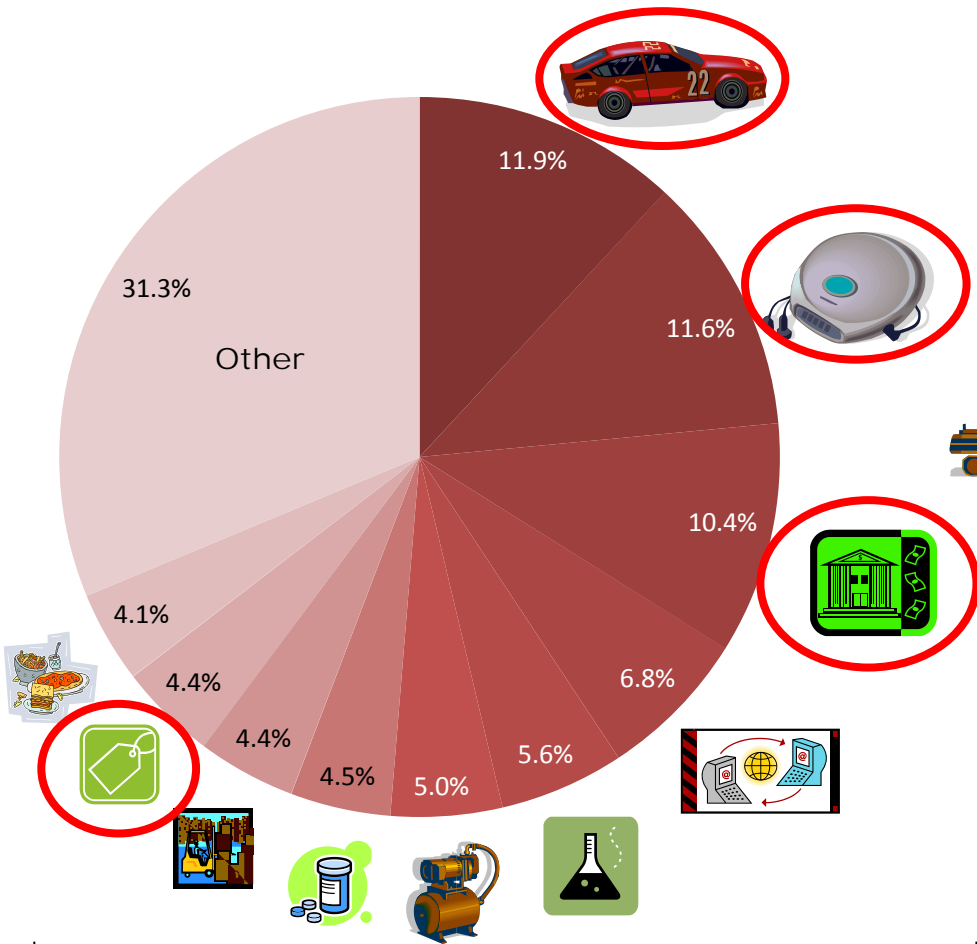
3. Market capitalization-weighted index expressed in points



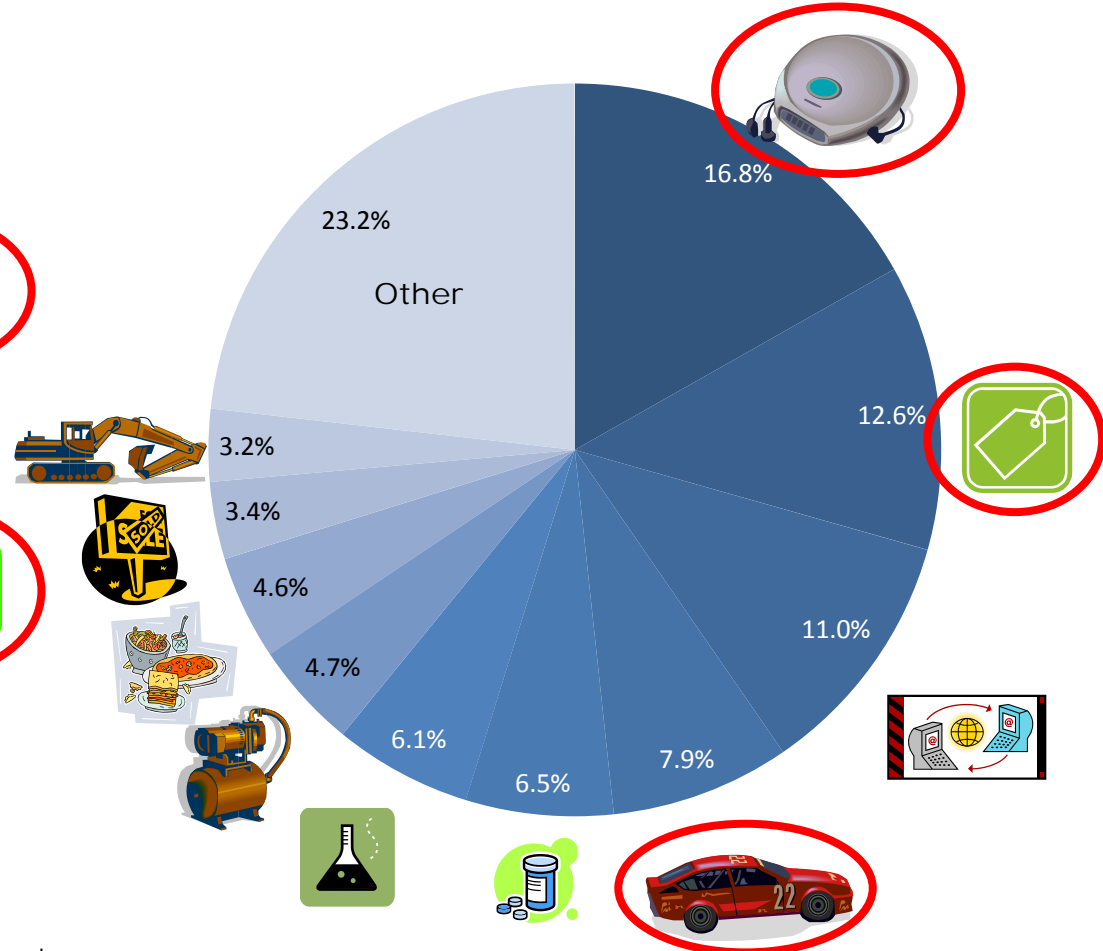
How is it different from the Nikkei?

TOPIX: Tokyo Stock Exchange

Nikkei 225: Nihon Keizai Shimbun



1722 Market Value Weighted Stocks



225 Price Weighted Stocks

How do the methodology differences affect price movements?

TOPIX

Formula:

$$\text{Index value (pts.)} = \frac{\sum(\text{Price} \times \text{No. Shares})}{\text{Base Market Value}}$$

Big Movers:

High market cap stocks (Toyota, MUFG, etc.)

Nikkei 225

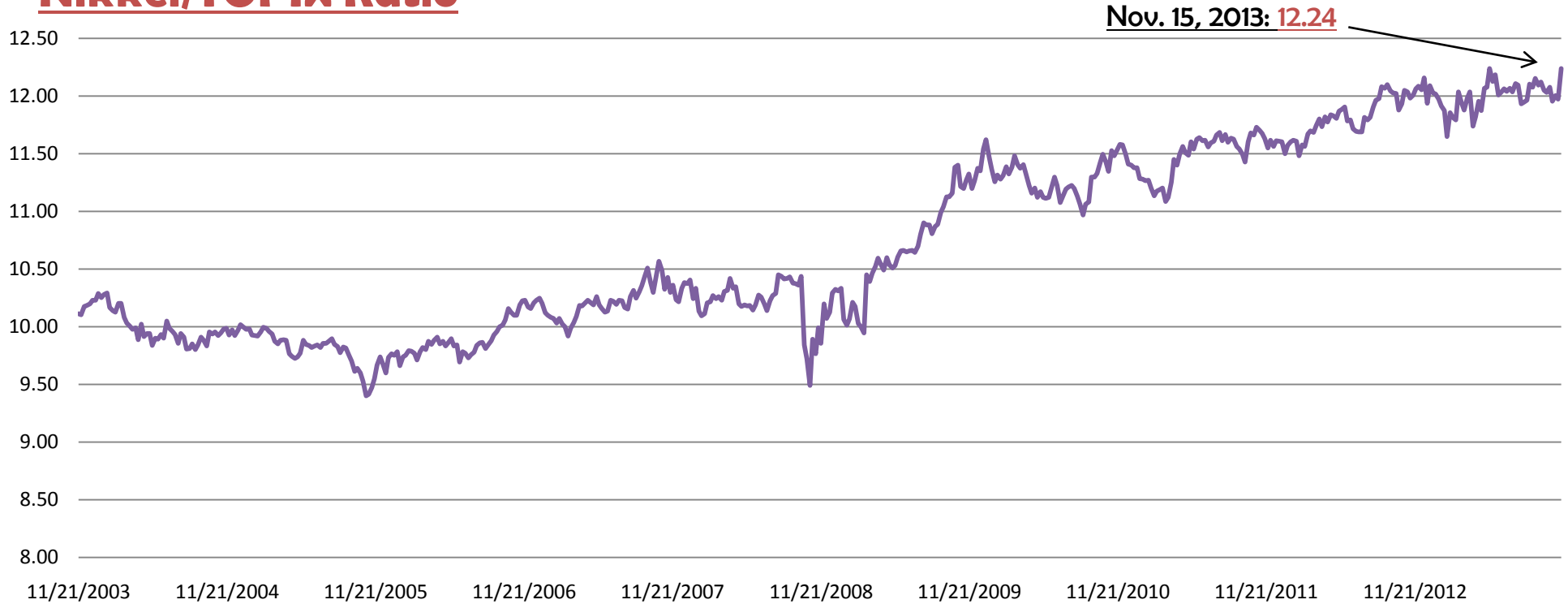
$$\text{Index value (JPY)} = \frac{\sum \text{Adjusted stock price}}{\text{Divisor}}$$

High price stocks (Fast Retailing, Kikkoman, etc.)



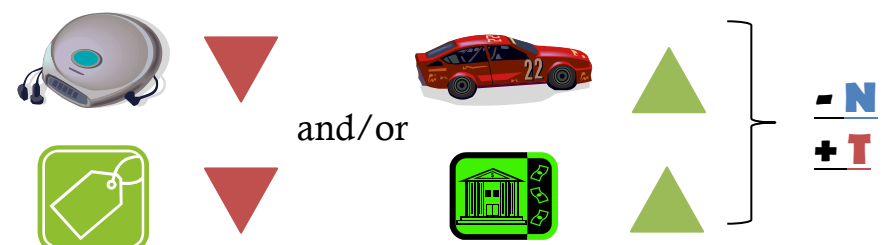
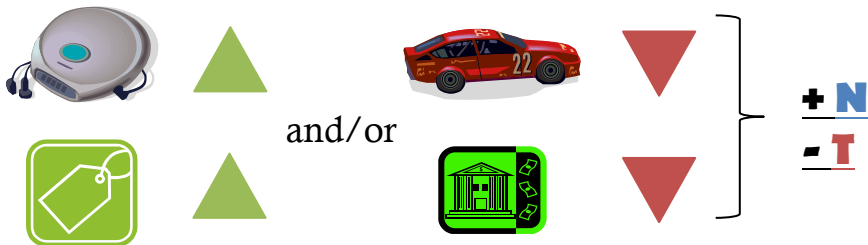
Playing the difference between TOPIX and N225 : the N/T Ratio Trade

Nikkei/TOPIX Ratio



N/T

N/T



A short primer on JPX Futures



Trading Times



Contract Size



Tick Size



Required Margin
(as of Nov. 1, 2013)

	TOPIX Futures (Large)	TOPIX Futures (Mini)	Nikkei 225 Futures (Large)	Nikkei 225 Futures (Mini)
Trading Times	9:00 ~ 11:35 11:45 ~ 15:15 16:30 ~ 23:30	9:00 ~ 11:35 11:45 ~ 15:15 16:30 ~ 23:30	9:00 ~ 15:15 16:30 ~ 3:00	9:00 ~ 15:15 16:30 ~ 3:00
Contract Size	Index value × ¥10,000 (around ¥12.4M)	Index value × ¥1,000 (around ¥1.24M)	Index value × ¥1,000 (around ¥15.2M)	Index value × ¥100 (around ¥1.52M)
Tick Size	0.5 points (¥5,000)	0.25 points (¥250)	10 yen (¥10,000)	5 yen (¥500)
Required Margin	¥360,000	¥36,000	¥480,000	¥48,000

Mar. 24, 2014 (indicated by a red arrow pointing from TOPIX to Nikkei 225)

Let's walk through an example of an N/T trade:



I think that N/T's going **UP**
in November

Sell TOPIX Futures

Buy Nikkei 225 Futures

However:

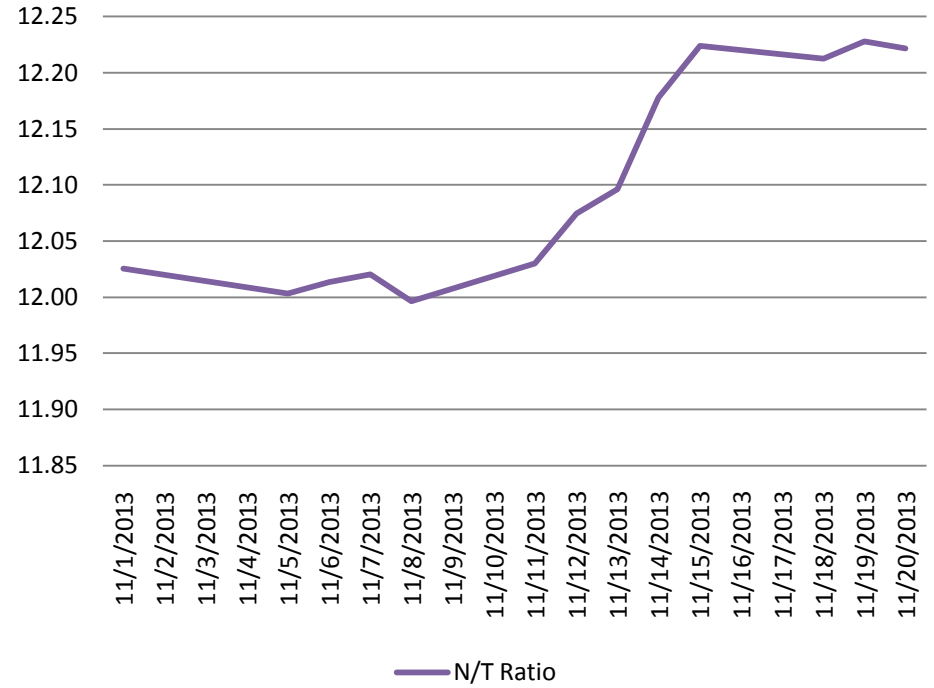
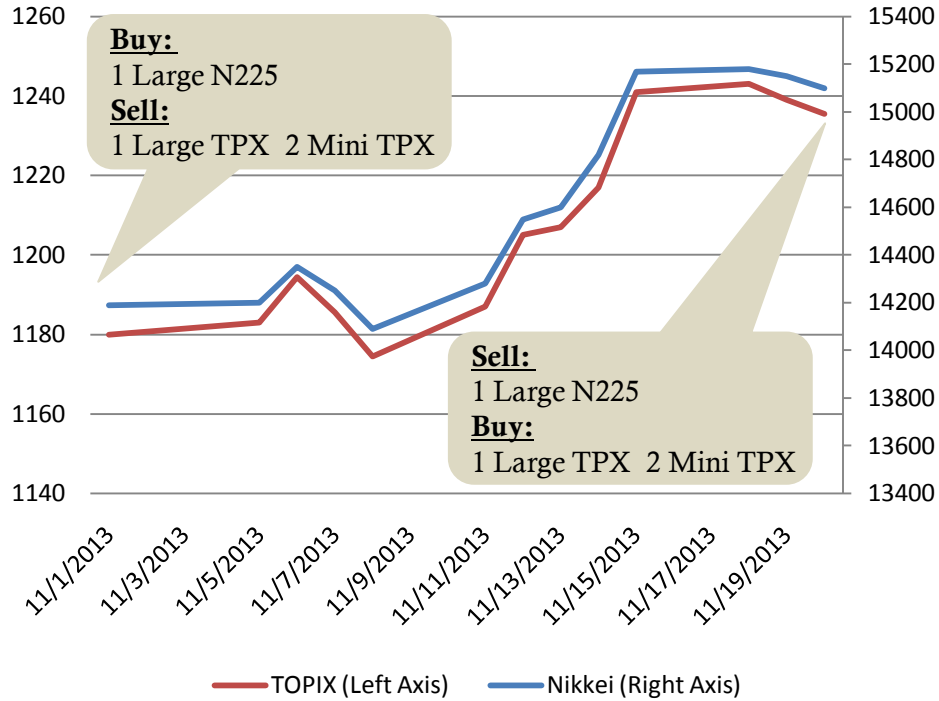
	TOPIX		Nikkei 225
Large Contract Price (Nov.1)	1180 pts		14190 yen
	×		×
Multiplier	10000		1000
	=		=
Contract size (JPY)	\11,800,000	≠	\14,190,000

Include Mini

Mini Contract Price (Nov.1)	1180 pts		
	×		
Multiplier	1000		
	×		
# Contracts	2		
	=		
	\2,360,000		
	+		
	\11,800,000		
	=		
Total Contract Size:	\14,160,000	≈	\14,190,000

\30,000 difference is your total exposure to N225

How does it work out?



Position	November 1, 2013	November 20, 2013	Profit
Nikkei 225 Large (Long)	\14,190,000	\15,100,000	+ \910,000
TOPIX Large (Short)	\11,800,000	\12,355,000	- \555,000
TOPIX Mini (Short)	\2,360,000	\2,471,000	- \111,000
Total			+ \244,000

What about margins?

BEFORE



1 TOPIX Large: ¥360,000
 2 TOPIX Mini: ¥72,000

+

1 Nikkei 225 Large: ¥480,000

Total required margin: ¥912,000

AFTER



1 TOPIX Large (short): ¥360,000
 2 TOPIX Mini (short): ¥72,000
 1 Nikkei 225 (long): ¥480,000
 Margin discount: **(- ¥705,980)**

Total required margin: ¥206,020

Margin savings of about ¥705,980 (77%) thanks to merger



Your potential returns increase by 92%

*Figures are for week of 10/28 to 11/1.

**Margin calculated using SPAN. Actual margin required by broker may vary.

Advantages:

- ✓ Opportunities in all market environments
- ✓ Take sector positions through products with deep liquidity, less idiosyncratic risk
- ✓ Low required capital investment

Risks:

- ✓ Futures are leveraged products with inherently high risk
 - ✓ Index constituents may change suddenly/significantly
-

How do I get started?

Contact a JPX trading participant:

A list is available on our website:

<http://www.tse.or.jp/english/about/participants/index.html>

Any other questions?

Contact us!

mkt-biz@jpx.co.jp

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