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The pricing of stock index futures spreads at contract expiration

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Abstract

This paper conducts an empirical analysis of the mispricing of calendar spreads for stock index futures. Using recent data drawn from the Sydney Futures Exchange, a sharp increase in the magnitude of spread mispricing immediately prior to maturity of the near contract is documented. This pattern in mispricing is related to a sharp decline in open interest in the near contract and an increase in open interest in the deferred contract. Further, the direction of mispricing of the near and deferred contracts are more likely to move in opposite directions as the near contract approaches maturity. These findings are consistent with the hypothesis that traders seeking to roll-over their positions from near to deferred futures contracts close to maturity increase the magnitude of spread mispricing. © 2002 Wiley Periodicals, Inc. Jrl Fut Mark 22:451–469, 2002

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