Thailand Futures EXchange
The Stock Exchange of Thailand Group

Introduction to TFEX…

DERIVATIVES is a financial instrument whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indices.

Types of Derivatives

Derivatives are usually classified into 4 categories as follow:

1. FUTURES	Futures contract is a standardized contract between two parties to exchange a specified asset of standardized quantity and quality for a price agreed today with delivery occurring at a specified future date.
2. OPTIONS	Options is a contract between two parties for a future transaction on an asset at a reference price. The buyer of the option gains the right, but not the obligation, to engage in that transaction, while the seller incurs the corresponding obligation to fulfill the transaction.
3. FORWARD	Forward contract or simply a forward is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.
4. SWAP	Swap is a contract between two parties to exchange streams of payments over time according to specified terms.

Advantages of Futures Trading

High Leverage:

You only need to deposit the initial margin when trading futures contract. Usually the initial margin set by brokers is at 10%-15% of the cash value of the contract. As a result of leverage, if the price of the futures contract moves up even slightly, the profit gain will be large in comparison to the initial margin. However, if the price just inches downwards, that same high leverage will yield huge losses in comparison to the initial margin deposit.

You can make profit no matter the market conditions:

A speculator who goes short enters into a futures contract by agreeing to sell and deliver the underlying at a set price. He/She is looking to make a profit from declining price levels. By selling high now, the contract can be repurchased in the future at a lower price, thus generating a profit for the speculator.